June 26, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D'ANDREA TYSON

SUBJECT: **Potential Administration school construction/repair initiative**

In response to your request to consider ways in which the Administration might respond to the significant need across the country for school repair and construction, your economic team discussed a wide range of alternatives and has developed five options for your consideration:

1. **No Action on School Construction.** Take no action directly on school construction or repair, continuing instead to emphasize curriculum reform and support for educational technology.

2. **Challenge Grants.** Make challenge grants to state bond banks or revolving loan funds to provide insurance or a credit subsidy to state or local bonds for school construction or renovation.

3. **Credit Subsidy for Specified Purposes.** Provide a federal credit subsidy for bonds issued for a specified and limited set of school renovation purposes.

4. **Credit Subsidy for Incremental Spending.** Provide a federal credit subsidy for incremental expenditures on school construction or repair.

5. **Technical Assistance.** Provide a range of federal technical assistance services to enable local jurisdictions to more efficiently meet their school construction and repair needs.

Nature of the Problem:

According to the General Accounting Office, roughly one-third of the nation's 80,000 elementary and secondary public schools need extensive repair or replacement. The GAO estimates that bringing the nation's schools into "good overall condition" -- after which they would require only routine maintenance or minor repair -- would cost $112 billion. Of this amount, roughly $11 billion would be needed to comply with Federal mandates (principally to remove hazardous substances such as asbestos and to make schools accessible to all students). While schools in all areas of the country report infrastructure problems, the most severe conditions are in the West, in central cities, and in schools with high proportions of minority students. To put these figures in perspective, total public spending for primary and secondary school structures averages about $20 billion per year.

In addition to demands for repair and replacement, public schools will need to accommodate sharp growth in primary and secondary school enrollment over the next decade. Between 1993 and 2006, for example, public K-8 enrollment in New Mexico, Arizona, California, Nevada, Washington, and Oregon is expected to increase between 15 and 30 percent. For grades 9-12, enrollment is expected to grow most rapidly in the Southwest and the Northeast. The GAO report did not include the construction costs that will attend this expected enrollment growth.

Some caveats to these estimates of "need" should be noted. The GAO data -- although the best available -- are derived from surveys of school administrators, and reflect the subjective responses of potentially biased observers to questions about school "needs." In addition, they fail to consider the extent to which those schools that are in bad condition are still needed; some deteriorating schools have enrollments far below capacity and should be closed through district consolidations. In addition, the data reflect the problem at a single point in time, and give no sense for whether construction needs have been growing, been stable or been shrinking. A final difficulty in analyzing the data is assessing the relative urgency of infrastructure versus other school needs, such as teachers. And while some believe that quality school buildings are necessary to create an environment for learning, the academic evidence linking educational infrastructure to student performance is tenuous at best.

Historically, the Federal government has provided only limited funding for school infrastructure expenditures, and then mostly to defray part of the costs imposed by Federal regulations. In 1994, Congress broadened the federal role and appropriated $100 million for repair, renovation, alteration, or construction of local schools in FY95. The Administration's FY96 Budget in February proposed rescinding these funds, arguing that "current fiscal constraints dictate that new Federal activities in this area not be initiated." The Administration's amended budget request in March proposed rescinding only $65 million, leaving an annual funding level of $35 million for FY95 and FY96 for schools in EZ/ECs. The final appropriations bill rescinded the entire FY95 funding, and no funds were appropriated for FY96.

To date, your call to make public schooling a national priority has been consistent with this limited Federal role in K-12 infrastructure spending. You have supported programs and initiatives that promise higher quality schools for all, and real choice among public schools. These initiatives have included the defining of higher standards, Goals 2000, and Title 1 reform; School-to-Work opportunities; Charter Schools and Challenge on Public School Choice; and Technology Literacy Challenge. None of these initiatives provides additional federal funding for school construction. Indeed, increased appropriations for school construction might make it more difficult to fund your existing education priorities.

Below are the five options developed by an interagency working group and considered by the NEC principals.

Option 1. Take no action on school construction or repair, continuing instead to emphasize curriculum reform and support for educational technology.

Pros:

- School construction has traditionally been a local issue, as well as the subject of difficult state/local relations. Lack of action is often a statement of local political judgment.
- This is potentially a very large problem that the federal government is unlikely to spend sufficient dollars to "solve," or even make a major dent in; taking it on could make it **our** problem, rather than that of the states and localities.
- Taking on the issue could **reduce** local incentives to take action if local school districts and voters think the federal government will come to the rescue.
- To spend limited federal dollars while taking credit for large local expenditures requires using a credit subsidy. Some feel that credit subsidies are inherently difficult to target toward **incremental** expenditures rather than on bond issues that either (i) would have been made anyway or (ii) substitute for other expenditures.
- Federal involvement might **increase** local costs, for example by subjecting school construction to Davis-Bacon.
- Some might criticize us for taking on another infrastructure issue when there are unmet infrastructure needs in areas more traditionally the province of the federal government.
- Some might say federal involvement in school construction is big government and federal interference in local issues.

Cons:

- This is an issue of strong concern among parents across the country, in middle class school districts as well as poor districts. It would likely receive significant national and local attention -- based on coverage of the GAO report.
- Although there are uncertainties about the precise validity of the GAO numbers, it is clear there are vast unmet needs for school construction and repair.
- While local choice in the sense of voting down bond issues may be the reason for some of the shortfall, in many other cases -- particularly in central cities and poor rural communities -- cash-strapped communities have been forced to spend money on more immediate priorities, including teachers and books.
- Many other federal initiatives are designed to overcome local opposition to policies in the national interest.
- As funds for infrastructure are tight, it is logical to target expenditures to our highest priority -- education.

Option 2. Make challenge grants to state bond banks to be used to provide insurance or credit subsidy to state or local bonds for school construction or renovation.

Under this option, the federal government would challenge states to establish or use state bond banks and revolving loan funds to assist localities in construction, renovation and repair of elementary and secondary school facilities. States would be expected to use the money to provide credit assistance to local school districts or other public bodies that issue bonds for school construction. Challenge criteria could relate both to the functioning of the state entity and to the state entity's criteria for assistance to local entities.

Pros:
- Builds on our successful experience with the Clean Water State Revolving Fund and the pilot state infrastructure banks.
- Maintains central role of state and local governments, with the federal government merely acting as a catalyst and subsidiary partner.
- Would encourage state involvement -- which may be key to success at the local level.
- Challenge grant structure encourages states and localities to focus on our priorities, and may have positive impact even in states that do not get grants.

Cons:
- May not be of much help to large school systems, which may not face any problems in placing their own bond issues.
- Only about half of the states have appropriate bodies, and many of the others will not create them for philosophical reasons: they believe this is a local function.
- Makes federal initiative totally dependent on states for implementation, which (i) may not please local governments, (ii) may mean the neediest districts will not benefit; and (iii) may not provide as much leverage as a direct federal credit subsidy.
- Challenge grant criteria may be regarded as excessive federal interference and may revive issue why federal government is not paying full costs of these "mandates."

Potential Cost: One model of this proposal would cost $200 million per year, leveraging $800 million of construction. This is based on 20 grants of $10 million per year for 10 years, costing $200 million a year and $1.2 billion over six years. We estimate the maximum state leverage to be 4:1, or $800 million of construction annually, $4.8 billion over six years.

Option 3. Provide a federal credit subsidy for bonds issued for a specified and limited set of school renovation purposes.

Under this option, the federal government would directly reduce by 20% (up to 100 basis points) the interest cost of local school districts and other public bodies that issue bonds for school renovation. The purposes for which the subsidy would be available would be designed to meet one or more of three criteria: (i) impact on pupil performance (e.g., technology); (ii) particular federal interest, such as environmental protection, energy efficiency or security; or (iii) reducing hurdles to local financing attributable to items such as asbestos removal or disability access.

Pros:

- Provides a widely available benefit for a limited range of purposes that the Administration cares about.
- Limiting uses reduces cost of program.
- Setting the subsidy as a percentage of the interest rate provides a comparatively greater benefit to school districts with lower bond ratings (and therefore higher interest rates).
- Leaves the decision whether to use the subsidy in local hands.

Cons:

- Would subsidize activities that many districts would do anyway.
- Does not respond to need either for new schools (because of population shifts, immigration, etc.) or for funds to deal with traditional deferred maintenance, such as crumbling walls, lack of plumbing, etc.
- Unless the program were capped, the expense may far outstrip estimates. Capping raises complex issues of basis for receipt: first-come-first-served, state choice, need?
- The entire 10-year subsidy stream must be scored in the year of commitment on the mandatory side of the budget.

Potential Cost: One model of this proposal would cost $400 million per year, subsidizing $8.5 billion in bonds. This is based on a 4.7% credit subsidy rate for a 10-year bond at 100 basis points.

Option 4. Provide a federal credit subsidy for incremental expenditures on school construction or repair.

This option would provide a federal incentive for increased local spending on school construction and renovation for any purpose. States would be provided the funds in the year following the year in which additional school construction/renovation bonds were issued, and would be required to pass it through to local jurisdictions who issued the bonds in that previous year in a manner that relates either to greatest need or to incremental effort.

Pros:

- Subsidy would be broadly available for a full range of needs -- including new construction.
- Program's cost is reduced by not subsidizing the approximately $20 billion in bonds currently issued annually for school construction and renovation.
- Avoids charge of federal interference in local school priorities.
- Allows Administration to state that spending would only occur to the extent that additional school construction would occur.

Cons:

- Incremental effort measure has undesirable results, disadvantaging states that have put forth the most effort in the past, and rewarding those who have been lax. (Illinois and Florida, and possibly California, would be disadvantaged under an incremental proposal.)

- After-the-fact state pass-through to localities could be very difficult to relate to any federal priority; large cities in particular are likely to assert they will be short-changed.
- Unless the program is capped, the expense may far outstrip estimates.
- Some portion of the increase above the base level of expenditures is likely to be related to increases that would have occurred without the federal subsidy.

Potential Cost: One model of this proposal would cost approximately $460 million, subsidizing $5 billion of incremental bonds annually. This is based on a credit subsidy rate of approximately 10.4% for 30-year bonds, and 7.9% for 20-year bonds, and assumes that the incremental $5 billion is split event between the two maturities. One could provide a higher interest subsidy -- 200 basis points or more -- to fund $5 billion a year for a specific four-year period, but it would require significant offsets during this four-year period.

Option 5. Provide a range of federal technical assistance services to enable local jurisdictions to more efficiently meet their school construction and repair needs.

Forms of technical assistance could include:
- Conducting a targeted information campaign that focuses on how the Administration's Technology Literacy Challenge effort is assisting schools to defray some of the costs associated with introducing technology into their buildings;
- Using the bully pulpit to promote voluntary efforts (e.g., NetDays, nationwide national school repair days, working with the National Guard, promoting local school/community/business partnerships) to build community support for and involvement in school renovation and construction;
- Establishing a Technical Support Clearinghouse to provide information about how other schools and school districts have met their infrastructure needs, including assistance in areas such as architecture, multiple use, financing, energy efficiency, and using pollution control markets. This could also include an excess property information service.
- Calling a national meeting of local and state officials to look for ideas to deal with this emerging national challenge.

Pros:
- Gives additional impetus to the Technology Literacy Challenge and ties state and local infrastructure efforts to the broader education agenda.
- Consistent with other Administration education and reinvention efforts in that it focuses on (i) lowering the cost of getting good information so communities can help themselves and (ii) building community partnerships.
- If real barrier to school renovation/construction is lack of political interest/will at local level, this may galvanize a community around the issue.
- Can help make smaller districts and states more efficient.
- Less likely to involve federal government in local politics, or to generate charges of federal interference in local matters.
- Should be relatively inexpensive.

Cons:

- Might be viewed as a very small response to what we will be agreeing is a major problem.
- Particularly with respect to school construction and financing, involves areas in which the federal government traditionally has had limited experience; our ability to provide high quality, credible technical assistance may be limited.
- We may be spreading both our own organizational capabilities and the interest of our partners in educational technology too thin by adding this component to our NetDay and 21st Century Teacher Training kickoff.

Cost: Negligible.

June 28, 1996

MEMORANDUM TO LAURA TYSON

From: Gene Sperling

Subject: School Construction Options

Below is a quick summary of the three refined options for a school construction initiative. As we have not yet decided on what off-sets are acceptable, we have not put a price tag on the total at this time. Rather, we suggest three models which could handle any amount of funds we are willing to spend. Attached is a more detailed explanation of the three options that Ellen Seidman drafted and Peter Orszag contributed to along with the Department of Education.

All three models assume the following characteristics:

- **Leverage Additional School Construction:** Regardless of what model we choose, the goal of our proposal should be to leverage new net school construction, and not just to subsidize construction that would have taken place anyway. Therefore, all models would be designed to subsidize the net incremental investment.

- **Ensure Large Cities are Not Excluded:** Each model is designed to ensure that the large cities where some of the greatest need arises are not excluded either by the selection process or a Governor of a different political party.

- **One-Time Jump Start:** All of the proposals assume a four to five year one-time expenditure to help states and localities begin to face their construction needs. In each proposal, there would be a limited amount of funds that would be drawn down by states or applicants who met the set criteria.

- **Credit Subsidy:** All three of the options assume that a credit subsidy will be the vehicle for leveraging new construction. A credit subsidy ensures that the applicant is taking responsibility; they must vote to borrow and repay funds, and we help make doing the right thing easier. Rather than voters being encouraged to vote against a bond issue because the federal government is providing funds, the federal assistance provides an incentive to pass a school construction bond issue.

WHO IS THE DIRECT RECIPIENT OF FEDERAL DOLLARS? THREE MODELS: The main issue still in question is who the federal government should directly provide the assistance to: the states, local education districts, or a hybrid.

Model 1. STATE AS RECIPIENT: In this model the state is eligible for a proportionate share of funds that it can draw down once it meets its "incremental addition" criteria and it ensures that major cities will not be left out. The advantages of this is that it is federal assistance that still allows for state and local control of the allocation of school construction dollars. It also avoids criticism -- however unfair -- that the Department of Education would not be able to administer such a complicated program with thousands of individual applicants. Mostly, however, it avoids criticism that this is an inroad into federal control of local education functions. The major down side is that even with a formula it puts most of the program in the hands of governors who may be hostile to the program simply because it is proposed by the President.

Model 2. DIRECT APPLICATION TO THE FEDERAL GOVERNMENT: Under this model, thousands of applicants would be able to apply directly to the Department of Education for funding. The advantage here is that the Mayors and superintendents who would be most supportive of this new initiative would be able to apply directly for funds and would be very vocal in their support. Anywhere any Administration official went they could speak directly to the people of that town and say that if you do the right thing on school construction, we will be your partner. The downside as mentioned above, is that this might look to some like the federal government putting strings on money that could lead to subtle coercion to accept certain values or history standards from the federal government. Furthermore, it will make the Department of Education a greater target -- though they strongly support this option if we are going to do a proposal. Direct applications would allow closer review of individual meritorious projects, but would make an overall incremental standard very difficult to develop.

Model 3. HYBRID: Under this proposal, the top 100 largest school districts (enrollment over 40,000) would apply to the federal Department of Education for credit subsidy assistance. The Department of Education would set aside some amount of funds (perhaps about 25%-35% of the funds) for large city applicants; these cities make up about 25% of national enrollment. The rest of the funds would go to states who would then have the discretion to give out credit subsidies to smaller communities who met the given criteria. The advantage of this proposal is that big-city mayors would not feel dependent on potentially hostile governors to get their funds, while the overall program would still be left to state discretion. The Education Department would not be able to be criticized for being overburdened since they would only have to handle 100 -- not 10,000 applicants.

SCHOOL CONSTRUCTION OPTIONS

Option 1. Challenge grants to states with limited required pass-through.

For a three-to-five year period, states would be eligible to receive funds to provide credit enhancement for state or local bond issues whose proceeds are to be used for school construction or major renovation in an average annual amount in excess of the average annual amount spent by the state and by local jurisdictions in that state for construction or major renovation during the prior five years. At the beginning of the program, an amount determined by the proportion of the nation's K-12 public school enrollment in each state would be set aside for that state. A state could apply to the Department of Education to draw down the money at any time during the period, and could draw it down over a number of years or all at once.

To receive the funds set aside for the state, the state would have to demonstrate that:

- The funds received would be used to credit-enhance state and local bonds for incremental school construction and renovation financing; and
- No less than an amount determined by 1.25[1] times the proportion of students in the three urban districts with the largest number of enrolled students from families below the poverty level and the three non-metro school districts with the highest poverty rate would be passed through to those districts to credit-enhance debt financing for incremental expenditures for school construction and renovation, if those districts desired to have and use the funds for that purpose.

If by the third year of operation of the program a state had not applied to receive the funds set aside, the three urban districts in the state with the largest number of enrolled students from families below the poverty level and the three non-metro school districts with the highest poverty level could apply directly to the Department of Education for funds.

Pros:

- Using the states as the primary vehicle to decide how to allocate funds, (i) minimizes federal interference in what has traditionally been a state and local function; (ii) places responsibility for choosing among school districts on the state; and (iii) reduces federal administrative burden. Currently, the 40 states involved in school construction and renovation financing provide only about 20% of funds spent for this purpose. Providing federal funds through states may encourage them to do more.
- The pass-through ensures that areas with greatest need, including in particular large cities, will be funded.
- The focus on incremental expenditures increases the likelihood that the funds will in fact reduce the backlog of needs.

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[1] This multiple is illustrative. It is meant to deal with the fact -- recognized by GAO -- that poor school districts are often more needy than would be indicated simply by their proportion of enrolled students, even enrolled poor students. This is in part because cash flow problems over many years have generated large deferred maintenance backlogs. However, the choice of 1.25 in this memo is illustrative and the multiple ultimately chosen would have to be justified.

Cons:

- Particularly for jurisdictions not benefitting from the pass-through, there might be serious concern whether states would distribute money to districts most in need. (For example, in Ohio, Cleveland, Cincinnati, and Columbus would probably benefit from the pass-through, but Toledo, Dayton and Youngstown would not.)
- This pass-through is quite prescriptive, and its intent obvious.
- Between 8 and 10 states, including Illinois and Oregon, are not involved in school construction financing at all. An additional 10 states do not have bond banks which is probably the most efficient way of accessing this program.
- It will be very hard to construct a grant program in which the grantee further distributes the funds to be on the mandatory side of the budget, and therefore a program of any significant size must be directly offset by a non-education program cut to avoid a major hit to an already tight education appropriation.

Option 2. Capped credit enhancement to states and to school districts.

For a three-to-five year period, states and school districts could apply competitively to the Department of Education to receive a credit enhancement for expenditures for school construction and major renovation in an annual amount in excess of the annual average expenditure of the state or district for these functions in the prior five years. A state or district could apply to receive the funds over a period of years, or in a single year. The total awards made in the program over the five year period, scored as a credit subsidy, would be capped. The size of the award to any given state or district would be determined by the applicants' need and financial capacity.

School districts and states applying to receive funds would be evaluated on the following criteria:

- Poor physical condition of schools in the state or district, and/or demonstrated need for new schools;
- Limited financial capacity to respond to the needs; and
- A showing that the funds would be efficiently used to raise additional funds to make incremental expenditures on construction and major renovation.

Pros:

- Makes it much more likely that the program will get funds to neediest districts and that it will be perceived, ex ante, as doing so.
- Focuses on incremental expenditures, increasing the likelihood that funds will in fact reduce the backlog of needs.
- Requiring use of credit enhancement ensures the funds will be leveraged and applying jurisdictions will be required to show interest, including voting for bond issues, to get the funds.
- Avoids difficulties in the 8 to 10 states that do not participate in school financing.
- Easier to put this type of program on the mandatory side of the budget, reducing pressure on education appropriations.

Cons:

- May be perceived as undue federal interference in a local function, and criteria may be challenged as "more federal red tape."
- Makes the federal government responsible for choosing winners and losers.
- May be difficult -- especially in small districts -- to determine if local spending on school construction and renovation is incremental. Local capital spending is sporadic, and even a five-year average may not be meaningful.
- May be a significant administrative burden on Education Department, particularly if many districts apply for far more funding than available under the cap.
- Some districts, particularly those who are severely cash- or bonding capacity-strapped, would find it difficult to use a credit subsidy rather than a direct construction grant.
- This option, more than option 1, may be perceived as similar to the school construction program that we proposed be rescinded because it involves federal assistance being provided directly to localities. However, it differs from the rescinded program because it is a credit program and not a grant program.

Option 3. <u>A hybrid program of direct funding for credit enhancements for large school districts and state administration of program for small districts.</u>

For a three-to-five year period, the 100 school districts with the largest enrollment in the country (which includes most of the major cities) would be eligible to apply to the Department of Education for funds to provide credit enhancement for incremental school construction and major renovation expenditures. The total amount available for these districts would be capped at an amount determined by 1.25 times the proportion of students enrolled in public schools in those districts compared to all students enrolled nationwide. Remaining funds for the program would be set aside for states to use for credit enhancement of smaller school districts' incremental school construction and/or major renovation expenditures. States would be eligible to receive the funds in proportion to public school enrollment in each state (outside the 100 largest national districts) compared to nationwide enrollment. The criteria for district receipt of funds would be as described in option 2; the criteria for state receipt of funds would be as described in option 1 (although the large district pass-through would not be required).

Pros:

- Ensures that largest districts, which include many of those most in need (and more of those in need who may have difficulty being heard at the state level), will have fair opportunity to get funds.
- Limits charges of federal interference to larger communities, where it is less likely to be a problem, and Department of Education administrative burden.
- Keeps program for small communities at state level, where they are better known and more comfortable.
- Bifurcation similar to COPS program structure.
- Should be possible to fund at least the large district portion of the program on the mandatory side, reducing pressure on the education appropriation.

Cons:

- May appear excessively complicated and designed to benefit big cities.
- A number of large school districts, such as Charlotte, NC, which are not exceptionally needy, would likely lose any realistic chance of funding.
- Excludes small communities in the 8 to 10 states which do not participate in school financing. These include states with a large number of rural districts, such as Iowa, Louisiana and Nebraska.

THE WHITE HOUSE

WASHINGTON

July 5, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Laura Tyson

SUBJECT: Educational Infrastructure and Offsets

Your economic advisers have been meeting to review and develop options for a possible federal government initiative to support construction, renovation, and/or repair of the nation's elementary and secondary public schools. On Monday, a group of your advisers will meet with you to discuss how you might pay for such an initiative, should you choose to go forward with it. An attachment describes the pay-for options that were prepared for your consideration. Our Monday discussion of these options will also be relevant to any other new policy initiatives you might wish to consider between now and the November election -- initiatives such as capital gains tax relief and simplification for homeowners, or a new proposal to stimulate job creation in urban areas.

Monday's meeting is planned to focus on pay-fors, not on the general pros and cons of an educational infrastructure initiative nor on the design elements of such an initiative. Since your economic team has not yet had an opportunity to meet with you on these issues, I thought it would be useful to provide this background memo indicating some of our concerns. (I mentioned some of these to you on Wednesday in our Oval Office discussion.) Two different kinds of concerns have surfaced in our discussions: concerns about the effectiveness of a federal program to support educational infrastructure; and concerns about the political advisability of such a program.

I. CONCERNS ABOUT EFFECTIVENESS

1. **Is There A Better New Education Proposal?** Although there is compelling evidence that a large number of the nation's public schools are in need of repair or replacement, the evidence linking educational infrastructure to student performance is tenuous at best. Given the tight constraints on education spending, your advisers question the wisdom of spending resources on school construction--which is already tax-advantaged under current law--as opposed to some other educational program whose effects on educational outcomes are stronger and more reliable. For example, why not call for an equally bold proposal on pre-school and Head Start, or on student loans, or on teacher computer training? One possibility, described in the attached preliminary proposal, would be a federal commitment to set a new standard of two years of preschool for all children, starting with adequate funding so that all eligible children could attend at least one full year of Head Start, a program with a

proven track record. Your advisers would be happy to develop this proposal further if you are interested.

2. **Will We Spur Additional School Construction?** Your advisors generally agree that aid would be given in the form of a credit subsidy approach because it would require the local community to share in the responsibility for financing school construction by voting to borrow and repay funds. Several of your advisers are concerned, however, that federal support for educational infrastructure would simply substitute for local support that would otherwise be forthcoming, without any significant increase in the overall amount of construction that is financed. We have been working on a program design that in principle should address this problem--by fashioning federal support in the form of a credit subsidy for incremental spending.

   An incremental approach is somewhat more feasible if it is applied at the state level. At this level, we can try to focus on a federal subsidy for incremental expenditures over and above the average annual amount spent on school construction in the state during some previous period. But it is nearly impossible to apply an incremental approach at the local level because it would simply disadvantage districts that have financed high levels of construction in recent years and because the timing and amount of school bond issues can be quite erratic over time. For this reason, most of your advisors believe that if we try to apply an incremental approach, a substantial share of any federal credit subsidy program would have to take the form of challenge (block) grants to states based on state averages of recent construction efforts. Others believe the difficulty of implementing such a standard makes it advisable to focus only on a needs analysis.

   The problem is that it is that even with our best efforts at design, it would be impossible to know with any certainty how much construction would occur anyway, and very difficult to design an incremental plan that we know would be effective. The Treasury, in particular, believes that there is no way to design a federal program to guarantee that it leverages additional construction financing rather than substituting for state/local financing that would have otherwise occurred. At the very least, a federal program to subsidize educational infrastructure will be subject to a fair amount of criticism on this ground.

3. **How To Target and Who Should Do it?** States and local school districts have very different school construction needs and financing capabilities. Ideally, one would want to concentrate scarce federal dollars on where the needs are greatest, the capabilities are the most restricted, and the additional infrastructure spending would have the greatest impact on educational performance. Targeting federal dollars to districts on the basis of income and demographic characteristics and/or targeting federal dollars for repair rather than construction or for classroom space rather than gymnasium space might be reasonable approaches. But this kind of detailed targeting would require that the federal government have the ability to evaluate and adjudicate among requests from thousands of local school districts. Moreover, it is by no

means certain that the credit subsidy approach would effectively mobilize local financing efforts in the neediest districts or for the most pressing educational needs.

In light of these difficulties, your advisers have developed a hybrid approach that would channel some of the federal support to the states, which in turn would have the task of dividing it among local school districts, and would channel the remainder of the funds for allocation by the Department of Education to the largest--and most of the neediest--school districts in the country. An alternative approach, favored by the Department of Education, would have all of the federal money allocated by the Department but would limit such money to school repair projects or projects necessary to meet environmental or technology goals or other federal priorities. The third option would be, as mentioned above, to simply give the funding to the states to allocate -- either at their discretion or consistent with federal targets.

II. POLITICAL CONCERNS. Your economic advisers have also raised several political concerns about a new federal program to support educational infrastructure.

1. School construction has traditionally been a local government issue in which the federal government has not been involved. It is also often an intensely charged political issue at the local level. As the Secretary of Education said at one of our meetings, the federal government should avoid being thrown into the briar patch of local politics over school construction.

2. A new federal program in this area, especially one which is financed by revenue-raisers, could be fairly characterized as a traditional big-government, tax and spend approach.

3. In 1992, you proposed significant new infrastructure investment at the federal level. Budgetary constraints have prevented us from delivering on this promise. On one hand, an education infrastructure program could be seen as taking a more targeted approach to meeting your infrastructure goals. On the other hand, a new infrastructure initiative in a new area might focus criticism on our failure to deliver on an earlier commitment and could be greeted with skepticism.

4. While a $5 billion program could increase yearly spending on construction by a sizable percentage for a year or two -- if we are actually able to leverage net incremental spending -- a federal infrastructure program of about $5 billion is not likely to sound like much compared to an estimated price tag of $112 billion to bring the nation's schools into good overall conditions. Will a new program make the federal government responsible for the solution to a problem which it cannot solve because it does not have adequate resources?

5. A federal program to support local school construction could raise concerns about federal government interference in local school decision-making, which is a hot-button issue with many right-wing groups. Targeting federal support would likely aggravate such concerns.

Two Attachments:

Two Years of Pre-School: This is an alternative proposal to spur two years of pre-school -- with the federal contribution coming through expanded Head Start and possibly parenting education.

Offset List: Over the last week, NEC, OMB and Treasury have been searching for offsets that could be used not only for this initiative, but for any additional ideas you might wish to announce over the summer. Leon and the economic team both feel that it is important for you need to review the entire list of options so that you have a sense of the difficulties involved in financing any new spending proposals in the current budgetary environment.

As you will see, the list includes two revenue increases from limiting or ending tax preferences to multinationals that have income in foreign countries. While both of these policies may be good policy and good message and less difficult than the other options, Bob Rubin feels we must also calculate the degree to which such proposals inspire the business community to mobilize against us as they did in health care. Another option seen as less politically onerous than others is corporate jet subsidies, yet Leon fears that this might trigger the type of reaction that took place with the luxury boat tax. There is also an apparently painless Federal Reserve option, but it is not clear it would score, and many feel that it would be labeled a gimmick and would undermine our credibility on the budget.

NEW NATIONAL NORM FOR ALL YOUNG AMERICANS

TWO YEARS OF PRE-SCHOOL, TWO YEARS OF COLLEGE

Visions: The President would set a new national standard: all young children would go to quality pre-school for two years.

The President's vision for the nation: every child should have two years of pre-school: every young person two years of college.

Challenge:

As with the Hope Scholarship, where the President sought to make two years of college a new national standard, so two his proposal would be designed to establish two years of pre-school as a new national norm. In doing so, he would speak to all Americans: He would

Challenge all parents to be their child's first teachers and help them be ready to learn

Challenge parents to use their $500 tax credit to help them get their children quality pre-school education.

Challenge states to expand pre-school programs and to open more community schools that allow pre-school in their activities.

Challenge more day care centers to teach children and not just baby sit.

Initiative: $6-8 Billion Head Start/Pre-School Initiative: Because this national norm will only be reached with a nationwide mission, to ensure that even the poorest children have the chance and that all parents have the skills to be first teachers, the President proposes the following three-part initiative:

Fully Fund Head Start for 4 Years-Olds: While our goal should be two years of pre-school for all children, we could take a huge step by ensuing that all children get at least one year of Head Start -- by doubling the number of Head Start recipients from 750,000 to 1.5 million by the year 2002.

Head Start 0-3: A new Clinton initiative has been Head Start for 0-3. Currently, we spend only $140 million a year. We should make a major step by moving to $500 million a year, so that more and more young people can get the help they need from the start, and more poor working mothers will find it easier to be both parents and workers.

Parents as First Teachers: Building off the bipartisan efforts of Hilary Clinton, Barbara Bush and Kit Bond, the President calls for a national effort for local community programs modeled after Arkansas and Missouri and other states to help parents get the help they need to be their child's first teacher — a concept Barbara Bush also promoted.

Offsets: **No Trade-off Between Young and Old:** Many have stated that the only way we can properly invest in the young is by forcing a trade-off between childrens programs and harsh cuts to Medicare. That is not so. This proposal shows that by cutting unnecessary subsidies in the budget we can help make two years of pre-school education a new national norm without gutting Medicare or Social Security.

POTENTIAL OFFSETS - SUMMARY
(in billions of dollars)

Category 1	6-Year Savings
Limit availability of tax deferral for controlled foreign corporations (CFCs)	5.0
Replace sales source rules with activity based rule	4.0
Tighten the substantial understatement penalty	0.2
Deny dividends-received deduction (DRD) for portfolio preferred stock	0.2
Impose aviation fees on corporate owned jets	1.8
Limit annual investment in annuities with tax deferrals	1.3
Require the Federal Reserve to transfer surplus reserve holdings to Treasury	1.7
Prorate reduction in percentage depletion benefits	3.0
Repeal tax exemption for large credit unions	2.4
Total, Category 1	19.6

POTENTIAL OFFSETS - SUMMARY
(in billions of dollars)

Category 2	6-Year Savings
Auction digital broadcast spectrum	12.5
Reduce FSC benefits	2.5
Apply the lower tax brackets to income excluded by Americans working abroad (section 911)	1.2
Disallow deduction for certain entertainment expenses	1.3
Impose a cost of capital offset fee for Fannie Mae and Freddie Mac	4.2
Double flood insurance premiums	1.1
Repeal deductibility of advertising costs for tobacco and hard liquor	3.0
Sell three power marketing administration	1.9
Total, Category 2	27.7

Category 3	
Begin deeming sponsor's income to determine eligibility for Medicaid for legal immigrants	1.5
Require amortization of exploration and development costs	3.0
Require capitalization of multi-period timber growing costs	3.5
Expand current .25 percent gambling excise tax to casino games, bingo, keno, etc	4.0
Phase-out the dependent care credit for AGI $90,000-$100,000	1.0
Impose inland waterways user fees	2.5
Total, Category 3	15.5

Potential Offsets
(in billions of dollars)

	6-year savings
Category I	
Limit availability of tax deferral for controlled foreign corporations	5.0

Under the controlled foreign corporation ("CFC") rules of the Internal Revenue Code, U.S. shareholders of CFCs are treated as receiving an annual distribution of their pro rata share of the CFC's "subpart F" income. Subpart F income generally consists of highly mobile income, including passive income and income from certain third-country sales and services activities.

Under current law, shareholders of a CFC are permitted to defer U.S. tax on CFC's income that is Subpart F income. The proposal would require that a CFC's Subpart F income be decreased by half of its non-Subpart F earnings and profits. This proposal would reduce the extent to which foreign tax holidays or other incentives could distort the allocation of capital between U.S. and foreign investment.

The proposal will be strenuously opposed by U.S.-based multinationals on the grounds that it would harm their ability to compete against foreign-based multinationals conducting the same operations in the same foreign countries. International competitiveness, however, is based less on the applicable rules of international taxation than it is on non-tax issues such as the cost of capital, the use of advanced technology, and the level of education and training in the labor force.

Replace sales source rules with activity-based rule	4.0

Currently, exporters that have excess foreign tax credits can take advantage of a safe harbor rule that permits them to treat 50 percent of their foreign sales as foreign source income, when in fact the actual percentage of foreign source income is much lower. In proposing the tuition tax credit, the Administration proposed reducing this safe harbor from 50 percent to 25 percent.

In fact, no safe harbor is appropriate; rather, the sales income should be sourced according to where the economic activity occurs that produces the income. Accordingly, this proposal would completely eliminate the fixed-percentage safe harbor with an activity-based test.

This proposal will be opposed by U.S.-based multinationals that both conduct high-taxed foreign operations and export products from the United States. The Administration believes that export benefits should apply in a neutral manner to all exporters, rather than provide special benefits to only those exporters that also have excess foreign tax credits generated by other foreign operations.

Impose aviation fees on corporate-owned jets.......... 1.8

Currently, most of the revenues derived from aviation is from the ticket tax. In addition to fuel excise taxes of 15-17.5 cents per gallon, fees of $ 5 per aircraft are paid by general aviation (small private aircraft). To better reflect the cost of the services provided by the FAA (as well as air traffic control services provided by the Defense Department) to these users, the fees paid currently could be expanded or increased. In particular, additional fees should be imposed on corporate-owned jets.

The proposal targets principally large businesses, who might argue that they are being unfairly singled out for additional charges. Opponents would likely describe it as a job killer.

Limit annual investment in annuities with tax deferrals.......... 1.3

Deferred annuities are a tax-favored investment because the "inside buildup" of investment earnings is not taxed until the policyholder begins to receive the payout of the cash value of the contract. This proposal would impose an excise tax of 6 percent on contributions of more than $50,000 ($100,000 for married taxpayers filing jointly) made to tax-deferred annuities during the taxable year. (A similar tax already applies to nondeductible contributions over $2,000 made annually to an individual IRA.)

This proposal will likely be vehemently opposed by the insurance industry, for fear that this proposal would make inroads into taxing currently exempt inside buildup in insurance products generally.

Require the Federal Reserve to transfer its surplus reserve account holdings to the Treasury.......... 1.7

Currently, the Federal Reserve has a $3.5 billion surplus reserve that represents retained earnings of the Fed that have not been transferred to the Treasury as deposits of earnings. The Fed argues it needs this "rainy day account" to insulate it from risk of loss in international currency and other monetary transactions.

Congress has directed CBO, in recent budget resolutions, not to score any savings from legislation that required transfer of these surplus earnings. In addition, the proposal would be viewed as a gimmick because additional Fed payments now would be offset by lower Fed payments later.

Prorate reductions in percentage depletion allowance.......... 3.0

Currently, certain producers of natural resources may deduct a portion of their sales proceeds, regardless of their investment in the property. The proposal would reduce this tax subsidy. Producers, particularly independent oil and gas producers, will be hit hardest. They will argue that this subsidy is an important incentive for domestic exploration and development, enhancing our energy security and keeping product prices low.

Repeal tax exemption for large credit unions 2.4

Currently, credit unions are exempt from tax, even though they are virtually indistinguishable from a bank or thrift. The tax exemption for credit unions with assets of more than $100 million would be repealed. The proposal would subject such credit unions to tax under the rules that apply to large commercial banks.

The proposal will likely be vehemently opposed, including significant grassroots efforts, as the credit unions stir up their depositors.

Tighten the substantial understatement penalty.. 0.2

Currently, taxpayers may be penalized for erroneous, but non-negligent, return positions only if the amount of the understatement is "substantial" and the taxpayer did not disclose the position in a statement with the return. For this purpose, substantial is defined as 10 percent of the taxpayer's total current tax liability, which for very large corporate taxpayers can be a very sizable amount.

This ability to comfortably avoid any penalties on aggressive positions with quite substantial potential liabilities at risk has led many large corporations to take very aggressive positions with large amounts at stake, in effect playing the audit lottery without any downside risk. Recognizing that a large deficiency can be considered substantial even when it is less than 10 percent, the proposal would consider any deficiency greater than $10 million to be substantial.

The proposal is targeted at taxpayers that have tax liabilities of $100 million or more, who will argue that the penalty should continue to reflect a relative notion, even where very large amounts are involved.

Deny dividends-received deduction (DRD) for portfolio preferred stock... 0.2

Currently, corporate holders of stock in other corporations generally are entitled to deduct at least 70 percent of any dividends received on that stock. The Administration's FY 1997 Budget proposed to reduce this deduction to 50 percent in the case of portfolio stock. Passive stock investments that have priority over the common shareholders, however, arguably are indistinguishable from other passive, non-stock investments (for example, corporate debt). Accordingly, the proposal would eliminate the DRD on portfolio preferred stock.

As with the Budget proposal, this proposal will be strongly opposed by corporate issuers, financial intermediaries, and investors, who will argue that since dividends are not deductible by the paying corporation, the proposal results in multiple taxation of the same income.

Category II

Auction digital broadcast spectrum 12.5

This proposal would auction the portion of the spectrum that was to be used for broadcasting digital TV, instead of giving it to the broadcasters in exchange for the spectrum they currently use as proposed in the budget. The FCC could auction the digital channel spectrum within the next two years.

While this proposal makes broadcasters pay for a very valuable public resource, there would be vehement opposition from many members of Congress -- especially those from rural areas, the broadcasters , the public and the companies developing technology for digital TV.

While this proposal makes broadcasters pay for a very valuable public resource, there would be vehement opposition from many members of Congress -- especially those from rural areas, the broadcasters , the public and the companies developing technology for digital TV. The American firms spending billions on digital TV R&D would feel that they no longer have a guaranteed market for their product.

Reduce FSC benefits 2.5

There are two principal export tax incentives, the foreign sales corporation (FSC) provisions and the "sales source" rules. The Administration recently proposed reducing the beneficial sales source rules (in the context of the tuition tax credit proposal), but did not address the FSC rules.

Treasury studies have indicated that the cost of the FSC program is very high compared to the amount of additional exports created. Accordingly, the FSC benefits would be reduced by 20 percent. However, we recently proposed expanding FSC to cover software. In addition, this proposal would be viewed as unwisely discouraging exports. However, there may be more efficient export-incentive programs.

Reform taxation of Americans working abroad by applying lower brackets to excluded income (stacking)............. 1.2

The foreign earned income exclusion under present law applies to income that otherwise would be taxed at the taxpayer's highest marginal rate. Thus, taxable (non-excluded) income drops into the lowest brackets and is taxed at lower rates.

To more equitably tax U.S. persons who elect the foreign earned income exclusion, one could apply the lower brackets to currently excluded income and tax any additional income beyond the income eligible for the exclusion at the higher rate brackets that would apply if the excluded income were not excluded. A similar proposal was floated in early January during the budget negotiations and was met with strong opposition, including direct responses from affected workers.

They argue the incentive is necessary to allow America to compete in overseas hardship ports. The main effect is on the wages the multi-nationals have to pay their workers, which would increase without the tax exemption.

Disallow deduction for certain entertainment expenses.. 1.3

No deduction would be allowed for the cost of tickets to entertainment events, including sporting events, concerts, theater, and other performances, or for the cost of renting a skybox or other private luxury box (regardless of the period of the rental). The current exception for certain charitable sports events would still apply (so those costs would remain fully deductible).

The proposal will likely be strongly opposed by a wide range of constituencies, since it affects performing arts, sporting events, and other entertainment. The opposition likely will argue that the premise is incorrect that business-related activities do not occur at these events. However, while there is the ability to conduct some amount of business activity at these events, it is generally nominal.

Impose a cost of capital offset fee for Fannie Mae and Freddie Mac.. 4.2

Because of their affiliation with the Federal Government, CBO estimates Fannie Mae and Freddie Mac probably avoid over $1.5 billion per year in interest costs. This is because their status as Government sponsored enterprises (GSEs) probably saves them more than 30 basis points on the long-term debt that they issue, and about 5 basis points on the mortgage-backed securities they guarantee. Yet they do not pay the Government a fee or any other compensation for the reduced cost of capital they enjoy because of their status as GSEs.

Imposing an offset fee equal to one-half of the savings they derive from their Federal affiliation would raise $4.2 billion over 6 years. Initially the fee would reduce the GSEs' earnings, but the fee could also raise interest rates on mortgages with a face value below $200,000. If the entire fee were passed on, home buyers could face interest rates that were up to 0.1 percentage points higher.

Critics would call this a tax on homeownership, although CBO would likely score it as a fee rather than a revenue increase. HUD and Treasury are currently considering whether to recommend privatizing these GSEs or imposing these types of fees. If they were privatized one could no longer apply the fee. It appears likely their reports will recommend against privatizing or imposing these fees.

Double flood insurance premiums 1.1

Doubling flood insurance premiums would reduce the Federal Subsidy by 50%. This proposal, which is assumed in the FY 1997 Budget Resolution, will be opposed by FEMA, Congressional delegations from TX, LA, FL and elsewhere, plus the policyholders and insurance companies. In addition, nonscorable disaster costs would increase as policyholders cancel policies.

Repeal deductibility of advertising costs for tobacco and hard liquor 3.0

Currently, all advertising, marketing and promotional expenses are deductible from taxable income. Recognizing the substantial social costs that are attributable to these products, the Federal Government should not be viewed as subsidizing these products through deductibility of the costs of encouraging their consumption. The proposal, thus, would repeal any deduction for this type of advertising, promotion, etc.

The tobacco companies, in particular, will vehemently oppose this proposal, citing loss in output and jobs. Other industries may also oppose this proposal based on the concern that they may be next to be viewed as socially undesirable.

Sell three power marketing administrations 1.9

The Administration proposed sale of three PMA's (Southeastern, Southwestern, and Western) in the 1996 but not in the 1997 Budget. There was broad opposition to the FY1996 Budget proposal, particularly in the Senate, including Senators Daschle, Baucus and Hatfield. Their claim will be in part that it will raise utility bills. The net proceeds shown above assume that Southeastern is sold at the end of FY97, Southwestern at the end of FY98 and Western at the end of FY99.

Category III

For legal immigrants begin deeming sponsor's income to determine eligibility for Medicaid.................................. 1.5

SSI, Food Stamps and AFDC now count ("deem") a portion of sponsor's income to the immigrant to determine eligibility. This option would begin deeming in Medicaid, with the same exemptions as in current law. This policy is included in the immigration bills passed by the House and Senate and will most likely become law.

This is a more desirable policy than is in Congressional welfare reform bills, which would ban legal immigrants from key safety net programs. However, the Administration has opposed deeming in Medicaid. Strong opposition can be expected from the Hispanic Caucus and many in the Democratic party. It is very hard for low income immigrants to get health care coverage on their own. This policy could leave many indigent elderly and children without health coverage and could shift costs to public hospitals.

Require amortization of exploration and development costs for all minerals.. 3.0

An independent oil company can expense 100 percent of intangible drilling and development costs (IDCs). An integrated oil company can expense only 70 percent of its IDCs, with the remaining 30 percent recoverable ratably over 60 months. In addition, to avoid tax preference treatment for alternative minimum tax purposes, taxpayers may elect to amortize IDCs paid or incurred after 1989 over 5 years.

Non-corporate mining companies can deduct all domestic exploration and development costs. Corporate mining companies can deduct only 70 percent of these expenses, with the remaining 30 percent deductible ratably over 60 months. In addition, to avoid tax preference treatment for alternative minimum tax purposes, all mining companies may elect to amortize these expenses over 10 years.

The proposal would require capitalization and amortization of exploration and development expenditure for all minerals over 10 years. Alternatively, the proposal could be limited to non-fuel minerals only ($100 million).

The proposal will be strongly opposed by virtually all natural-resource companies, who will argue that these provisions are appropriate incentives to stimulate exploration and development, especially of domestic properties.

Require capitalization of multi-period timber growing costs.......... 3.5

Currently, the costs of raising timber and evergreen trees generally are excepted from the application of the uniform capitalization rules. Thus, the indirect costs of growing these trees, such as for fertilizer, pest control and other maintenance, may be deducted as incurred. The proposal would repeal this exception for large C corporations.

As a result, both direct and indirect costs incurred during the pre-productive period would be required to be capitalized and could not be recovered until the trees are harvested or otherwise sold. Timber companies, whose major holdings are in the Pacific Northwest, Southeast Alaska, and the Southeast United States, will strongly oppose the proposal. They will likely describe it as a job killer.

In addition, they will likely argue that these costs are properly viewed as period costs that are deductible when paid. However, that argument has little technical merit.

Expand current .25 percent excise tax on gambling to casino games, bingo, keno etc.......... 4.0

Currently, a .25 percent excise tax is imposed on most state authorized wagers. The tax could be expanded or increased in a number of ways.

The proposal would be strongly opposed by Nevada and New Jersey, as well as by Indian Nations that have casinos, bingo, keno, etc. They will describe it as a job killer. It likely will also be viewed warily by the states that have, or are contemplating, a state-run lottery.

Phase out dependent care benefits through cafeteria plans for AGI, $90,000-100,000.......... 1.0

Currently, the dependent care credit is never less than 20 percent of qualifying costs, regardless of the taxpayer's income. The credit could be reduced or eliminated above certain high-income thresholds.

At certain income levels, however, it is unnecessary for the Federal government to subsidize the taxpayers' child care costs. Thus, the proposal would phase out the credit for taxpayers whose adjusted gross income is $90,000-$100,000.

Impose inland waterway user fees.......... 2.5

The Administration proposed applying an inland waterways user fee in 1993 but received little support. Charging $1.75 per 1000 ton-miles would raise $2.3 billion over 6 years, and would cover the Federal cost of inland waterway operations, maintenance, and construction. CBO could count it as a spending cut -- an offsetting receipt -- rather than a tax.

The barge industry would strongly oppose it, arguing that it is a job killer. But their true power is the agriculture industry behind them. In addition, it affects some key states like Illinois and Missouri -- and anyone on the Mississippi.

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THE PRESIDENT HAS SEEN
7/10/96

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THE WHITE HOUSE

WASHINGTON

July 9, 1996

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MEMORANDUM FOR THE PRESIDENT

CC: LEON PANETTA

FROM: LAURA TYSON
GENE SPERLING

SUBJECT: Decisions on the substance of the school construction initiative

In order to move forward on school construction, we need guidance on six key issues, which are laid out below.

The first four are interrelated issues of targeting: (1) eligibility; (2) purposes; (3) degree of subsidy; and (4) targeting by effort. Decision (5) is on who should administer the program. Decision (6) is the off-sets we will use.

There is also a new proposal from the Treasury Department that would allow Connie Lee to guarantee all school construction. The volume would make this bold, but the degree of subsidy for any specific city would be shallow in comparison to the proposals we have been working on. This new proposal is also attached.

__DEGREE OF TARGETING.__ Any initiative will have a mechanism to ensure that the largest cities will get a fair share of funding because they have the greatest need. Beyond the issue of large cities, the degree of targeting will affect how we describe the proposal, the breadth of its appeal, how it could be administered, and the depth of the subsidy provided to each recipient.

1. **Eligibility:** Should the assistance be targeted based on some measure of need and past effort, or should it be available to all school districts? If eligibility is limited, one viable measure of need is income-based, such as the number of children in poverty or eligibility for Title 1 funding.

   a. **Targeted to Poorest Districts:** This proposal would target the neediest school districts. It would address schools in the worst conditions in the areas which could least afford to improve them.

   b. **Universal:** Allow all schools districts to apply. Funds could still be targeted -- so that the neediest were given the largest subsidies -- but all schools could apply.

   c. **95% of All School Districts:** This would be the same as the proposal listed above except it would exclude those school districts like Bloomfield Hills, Beverley Hills and other well-off school districts that do not need a federal subsidy.

Use an Existing Government Corporation, Connie Lee, to Support Elementary & Secondary School Construction Loans

Another alternative would be to use the existing College Construction Loan Insurance Association ("Connie Lee") – which already insures bonds for construction of colleges – and expand its mission to include elementary and secondary schools. This would require keeping Connie Lee as a government sponsored corporation (the Administration and Congress have already proposed to privatize it). However, it could help subsidize billions of dollars of bonds on a relatively small US government contribution. For example, we estimate that a contribution of $500 million total over five years would permit Connie Lee to insure almost $30 billion of school construction bonds. Bond insurance provides a relatively smaller subsidy, say ½% (50 basis points) off the borrowing rate, but it could be made available to a much wider base at a much lower cost in Federal resources. This approach would, however, represent a change in Administration policy and would be opposed by private bond insurance companies.

To provide additional support for needier school districts, the program could be expanded to include actual interest subsidy payments by Connie Lee. An additional program of $500 million over five years could provide deeper support to these schools.

Background

The College Construction Loan Insurance Association (and its subsidiary "Connie Lee") was created by statute in 1986, to insure and reinsure bonds and loans of colleges, universities and teaching hospitals.

Connie Lee, though created by Federal statute, has a Wisconsin state charter as an insurance company. It is half-owned by Sallie Mae and the US Government and half by private shareholders, largely educational institutions. Sallie Mae appears to be the largest shareholder, with a total investment of $53 million. The Secretary of Education invested $19 million.

Connie Lee Support for School Construction

Connie Lee operates by insuring bonds in exchange for a fee. In 1995, the agency insured $913 million of debt and provided reinsurance on an additional $43 million. Revenues were $19 million, with net income of $8 million.

Many, perhaps most, school districts purchase private bond insurance to reduce their borrowing costs. Connie Lee competes with three much larger private bond insurance companies, MBIA, AMBAC and FGIC. GSE status does not appear to have provided Connie Lee any substantial competitive advantage, because Connie Lee is required by its charters to focus on riskier (BBB) credits.

Proposed Privatization Legislation

In May 1995, the Administration proposed legislation to privatize Connie Lee by selling the Government's shareholding. This proposal was introduced by Senator Dodd as S. 941[1]. No action has been taken on S. 941.

However, the House passed Connie Lee privatization provisions in the 1995 Reconciliation bill and in H.R. 1617, the "Consolidated and Reformed Education, Employment, and Rehabilitation Systems (CAREERS) Act". These differ substantially from the Administration's proposal with regard to the proposed sale of the Connie Lee stock owned by the US Government. The CAREERS Act is in conference, and the Administration has been negotiating with the Congress over these provisions.

Connie Lee as a Possible Insurer of Elementary & Secondary School Debt

The Administration's original privatization proposal would have allowed Connie Lee to guarantee bonds for *secondary* school construction on a transitional basis. After three years, Connie Lee's activities would have been entirely unrestrained.

The Administration might instead propose that Connie Lee undertake insurance of elementary and secondary school construction bonds. Like the affordable housing goals imposed upon Fannie Mae and Freddie Mac, these could be reviewed and modified over time, to ensure the appropriate focus.

In exchange for Connie Lee undertaking this obligation, the Federal government would agree to a fixed subsidy of the business (either of the entire company or of a special GSE subsidiary). This subsidy initially could be made by contributing the government's existing $20 million equity, rather than selling it to a third party[2]. Thereafter, it could take the form of an annual contribution of $100 million to the

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1 Senator Dodd is a supporter of Connie Lee privatization in part because the three private bond insurers are based in Connecticut.

2 This contribution would not be scored as a budget outlay. Future contributions would be scored, but the (far larger amounts of) borrowing that Connie Lee insures would not be scored.

venture for five years. At current leverage rates, $500 million could support bond insurance for almost $30 billion in school construction bonds[3].

Pro's

- Could provide credit enhancement to marginal school districts for construction bonds.
- Could leverage limited Federal outlays, yet permit insurance of $30 billion in school bonds.
- Builds upon an existing organization that has both public sponsorship and private shareholders.

Con's

- Since bond insurance generally reduces borrowing costs only by about 50 basis points, this approach provides only a limited amount of subsidy.
- Would reverse one of the Administration's likeliest GSE privatization proposals.
- Would require a substantial expansion of Connie Lee activities to insure a large volume of borrowing.
- Would generate opposition from private bond insurance companies and their Congressional supporters (e.g., Senator Dodd).
- May be difficult to ensure that cost savings are passed through to bond issuers.

3 This assumes on-budget scoring only of the Federal equity contribution. As a GSE, Connie Lee's borrowing would not be accounted for as a Federal budget outlay.

PRESIDENT CLINTON'S

SCHOOL CONSTRUCTION INITIATIVE

7/11/96

SUMMARY OF PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

July 11, 1996

PRESIDENT CLINTON PROPOSES A NEW INITIATIVE TO HELP LOCAL COMMUNITIES AND STATES REBUILD THE NATION'S SCHOOLS. As America moves into the 21st century, our schools should too. If our schools are in no shape for the future, our students won't be either. The facts are clear:

- **One-Third Of All Schools -- Serving 14 Million Students -- Need Extensive Repair Or Replacement.** According to a recent General Accounting Office report, about 60 percent of schools have at least one major building feature in disrepair, such as leaky roofs and crumbling walls. Over 50 percent have at least one environmental problem, such as poor indoor air quality. [Source: General Accounting Office Report: "School Facilities: America's Schools Report Differing Conditions," June 14, 1996]

- **Schools Do Not Have The Physical Infrastructure To Allow Our Students To Meet the Challenges of the 21st Century.** Many schools do not have the physical infrastructure to make the best use out of computers, printers, and other equipment. Almost half (46 percent) of the schools report inadequate electrical wiring for computers and communications technology, and over half (52 percent) of schools report six or more insufficient technology elements (such as fiber optics cabling, phone lines for modems, and wiring for computers). [Source: General Accounting Office, "School Facilities: America's Schools Not Designed or Equipped for 21st Century," April 4, 1995]

- **Expected Enrollment Growth Imposes Additional Burdens.** Many school districts also face the need to build new schools to accommodate enrollment growth. Public school enrollment in grades K-12 is expected to rise 20% between 1990 and 2004. [Source: U.S. Department of Commerce, *Statistical Abstract of the United States, 1995*, p. 151]

KEY ELEMENTS OF PRESIDENT CLINTON'S NEW SCHOOL CONSTRUCTION INITIATIVE

- **Up to 50% Interest Subsidy for New School Construction and Renovation.** The initiative will reduce interest costs on new school construction and renovation projects by up to 50%, with a sliding subsidy scale depending on need.

- **$20 Billion in School Construction Spurred by $5 Billion in Federal Jump-Start Funding Over 4 Years.** The interest reduction is equivalent to subsidizing $1 out of every $4 in construction and renovation spending. $5 billion in federal funding over 4 years -- with most of the money administered by the States -- would support $20 billion in construction and renovation. One of the key criteria in distributing funds to projects will be the extent to which the spending is <u>incremental</u> -- above what would have occurred without this initiative.

- **Goal of 25% Increase in School Construction Over 4 Years.** National spending on school construction and renovation is currently about $10 billion a year or $40 billion over 4 years. By focusing on incremental or net additional construction projects, this initiative aims to ensure that at least half of the $20 billion supported by federal subsidies would not have otherwise occurred. This would increase school construction by at least $10 billion to a total of $50 billion over 4 years -- increasing school construction by 25%.

- **One-Time Construction Initiative Fully Paid For By One-Time Spectrum Auction:** A one-time auction of portions of the spectrum between channels 60-69 will fully fund this jump-start proposal.

- **State and Local Governments Maintain Responsibility and Control.** States would administer the bulk of the subsidies, while the largest school districts would apply directly to the U.S. Department of Education. State participation would be voluntary.

PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

BACKGROUND ON PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

July 11, 1996

50% INTEREST SUBSIDY FOR NEW CONSTRUCTION AND RENOVATION: President Clinton's new School Construction Initiative provides up to a 50% interest subsidy to school districts repairing existing K-12 schools or building new schools to replace old ones or to accommodate increased enrollments. Subsidies would be awarded according to several criteria, including need and evidence that the funding will support construction or renovation that would otherwise not have occurred.

- School construction is typically funded through tax-exempt bonds that currently carry interest rates of about 6%. The interest subsidy would be as large as 50% of the interest rate -- reducing the interest rate from 6% to 3%.

- The interest subsidy would generally be 50%, but could be administered on a sliding-scale with the communities most in need receiving the full 50% interest subsidy and communities with less need receiving a smaller subsidy.

$20 BILLION IN STATE AND LOCAL SCHOOL CONSTRUCTION SPURRED BY $5 BILLION FEDERAL JUMP-START:

- The President's plan provides $5 billion in federal subsidies over the next four years.

- The initiative would be a four-year, capped mandatory proposal that would be fully funded by auctioning a portion of the spectrum between channels 60-69.

- Given the subsidy rate, the range of subsidy rates, $5 billion should support $20 billion or more in school construction and renovation. Since the initiative is time-limited, school districts would have an incentive to act within the 4-year window.

GOAL OF 25% INCREASE IN SCHOOL CONSTRUCTION OVER NEXT FOUR YEARS:

- Currently, about $10 billion a year is spent on school construction each year -- or roughly $40 billion over 4 years.

- With up to a 50% interest subsidy, $5 billion in federal funding over 4 years should support a total of $20 billion in school construction.

- An important selection criteria is that communities undertake *additional* projects. Our goal is to ensure that at least half of the $20 billion will be additional net construction and renovation. This $10 billion in additional spending would represent a 25% increase over the projected level of spending over 4 years ($40 billion).

STATE AND LOCAL GOVERNMENTS MAINTAIN CONTROL AND RESPONSIBILITY: The President's initiative seeks to aid and strengthen the hand of local governments to build and rebuild their schools. But they must still take responsibility for their proposals and most of the cost.

- The initiative will make it easier for state and local governments to do the right thing by cutting their interest costs in half.

- States would administer the bulk of the credit subsidies to local communities. States would need to show that they have an overall plan to encourage net additional construction based on historical averages and past effort, and to take need into account.

- The 100 largest school districts by poverty count, plus approximately 25 other school districts the Education Department determines have exceptional needs, would apply directly to the Department of Education for credit subsidies to ensure that major cities which have the most significant needs and which actually implement a large share of all school construction receive appropriate treatment.

ONE-TIME SCHOOL CONSTRUCTION INITIATIVE FULLY-PAID FOR BY ONE-TIME AUCTION OF PORTIONS OF THE SPECTRUM BETWEEN CHANNELS 60-69: The initiative is fully paid for through a new proposal to auction a portion of the spectrum between channels 60-69 that is not currently being used for TV broadcasting. This one-time auction is expected to raise the $5 billion needed to fully pay for this school construction kick-start.

- For several years the FCC has been studying the possibility of auctioning unused or underutilized portions of the broadcast spectrum in between existing TV stations. The FCC has now concluded that with the development of digital wireless technology, the space around the TV stations can be auctioned and used without disturbing these broadcast stations.

- Therefore, this new proposal -- not contained in any previous Administration budget -- would auction a portion of the spectrum around the TV stations using channels 60-69. This spectrum is not currently being used for TV broadcasting, and its quality and location make it very desirable for exciting new personal communication services applications.

TECHNICAL ASSISTANCE PROVIDED TO HELP STATES AND LOCALITIES: Where there is a request for technical assistance, the Education Department or designated outside experts will be available to provide local and state government officials and other interested parties with information to assist them with school construction and renovation.

- States and localities will be provided with information and referrals relating to issues such as how to survey building needs, to accurately project enrollment, innovative financing strategies, and effective preventive maintenance strategies.

PURPOSES OF SUBSIDIZED PROJECTS: The credit subsidy will be used to lower the cost of additional construction or renovation projects with one of the following purposes:

1) Fixing or upgrading classrooms or structures related to academic learning, including fixing leaking roofs, crumbling walls, inadequate plumbing, poor ventilation, and heating or light problems
2) Increasing physical safety at the school
3) Enhancing access for students, teachers, and other people with disabilities
4) Improving energy efficiency
5) Addressing environmental hazards, such as poor ventilation, indoor air quality, or lighting
6) Providing the basic infrastructure that facilitates educational technology, such as communications outlets, electrical systems, power outlets, or a communication closet
7) Constructing new schools to meet the needs imposed by enrollment growth, and to create community schools and charter schools.

HOW TYPICAL COMMUNITIES WILL BENEFIT FROM PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

CITY OF METROPOLIS

TYPICAL PROBLEMS:	Like cities across the nation, Metropolis has large school construction and renovation needs. Two of its schools need major renovations, including plumbing and new roofs, and an additional elementary school is needed to accommodate a rapidly growing school age population.
TYPICAL COSTS:	The repairs and two new school buildings are expected to cost $10 million ($2 million each for the major renovations to the two existing schools, and $6 million for the new elementary school).
TYPICAL OBSTACLES:	Despite the clear need for the repairs and two new schools, the school board has been reluctant to propose issuing a bond when it could be rejected as too costly. As a result, only emergency repairs -- funded out of an operations account -- have been undertaken.
IMPACT OF PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE	**Reduces Local Cost of School Construction.** The President's proposal could cut interest payments in half, saving Metropolis $5 million in interest costs over the life of their $10 million bond. This is equivalent to saving $2.9 million immediately -- savings of 29% off of face value.

TOWN OF RURALTOWN

TYPICAL PROBLEMS:	The town of Ruraltown has three schools in need of major renovations, to improve indoor air quality, ventilation, and roofs.
TYPICAL COSTS:	The repairs of the 3 school buildings are expected to cost $5 million.
TYPICAL OBSTACLES:	Ruraltown faces difficult challenges in renovating its schools. Its tax base is too small to pay for the necessary renovations, and bond financing is too expensive.
IMPACT OF PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE	**Reduces Local Cost of School Construction.** The President's proposal could cut the interest rate paid by Ruraltown in half. This would save Ruraltown more than $1.7 million in interest costs over the life of their $5 million bond. This is equivalent to saving $1.2 million immediately -- savings of 23% off of face value.

[SEE ATTACHED TABLES FOR SPECIFIC SAVINGS UNDER PRESIDENT CLINTON'S INITIATIVE]

THE CASE OF THE CITY OF METROPOLIS

Clinton Initiative Saves City 29% of Construction Cost

COST OF CONSTRUCTION AND RENOVATION:	$10 million ($2 million each for the major renovations to the two existing schools, and $6 million for the new elementary school).
FINANCING:	Financed with 30-year bond with interest rate of 6%. Principal repayments begin after second year.

	CURRENT LAW	CLINTON INITIATIVE	SAVINGS
INTEREST RATE	6%	3%	3%
AVERAGE ANNUAL INTEREST PAYMENT	$330,000	$165,000	$165,000
TOTAL ANNUAL INTEREST PAYMENTS OVER 30 YEARS	$9.9 million	$4.95 million	$4.95 million

SAVINGS AS A PERCENTAGE OF FACE VALUE	
Face Value of School Construction	$10 million
Present Value of Interest Subsidy Under Clinton Initiative	$2.9 million
Clinton Initiative Savings as a Percentage of Face Value	*29%*

CASE OF THE TOWN OF RURALTOWN

Clinton Initiative Saves City 23% of Renovation Cost

COST OF CONSTRUCTION AND RENOVATION: $5 million (1.7 million each for the major renovations to the three existing schools).

FINANCING: Financed with 20-year bond with interest rate of 6%. Principal repayments begin after second year.

	CURRENT LAW	CLINTON INITIATIVE	SAVINGS
INTEREST RATE	6%	3%	3%
AVERAGE ANNUAL INTEREST PAYMENT	$172,500	$86,250	$86,250
TOTAL ANNUAL INTEREST PAYMENTS OVER 30 YEARS	$3.45 million	$1.73 million	$1.73 million

SAVINGS AS A PERCENTAGE OF FACE VALUE	
Face Value of School Renovation	$5 million
Present Value of Interest Subsidy Under Clinton Initiative	$1.2 million
Clinton Initiative Savings as a Percentage of Face Value	*23%*

PAYING FOR PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE
Spectrum Auctions

Overview: President Clinton's School Construction Initiative is completely paid for through a new proposal to auction a portion of spectrum between channels 60-69 that is not currently being used for TV broadcasting. This one-time auction is expected to raise the $5 billion need to completely pay for this one-time kick-start of school construction. The school construction funded with the proceeds of this spectrum auction will help prepare our children and schools for the Information Era.

Background on Spectrum Auctions: The Omnibus Reconciliation Act of 1993 gave the Federal Communications Commission (FCC) authority to auction spectrum licenses, instead of giving them away. The subsequent auctions have been very successful, efficiently allocating a scarce resource and raising $20 billion to date -- more than either the Administration or the Congressional Budget Office projected. The auctions have made quality portions of the spectrum available to private technological entrepreneurs, stimulating the development of new uses of the spectrum, such as personal communications services (e.g., two-way paging, digital cellular phones, and wireless connections to the Internet), which were not even imagined a few decades ago.

Spectrum Auctions Already in The President's FY 1997 Balanced Budget: The President's budget includes further auctions of broadcast and non-broadcast spectrum that the FCC will free-up in order to get more spectrum into the hands of the private-sector firms that can use it most effectively. The following spectrum auctions are already contained in the President's FY97 balanced budget:

1. **Broaden and Extend Auctions of Non-Broadcast Spectrum:** This proposal was also included in the Republican reconciliation bills and is expected to raise $19 billion.
2. **Auction of "Analog" Spectrum:** This proposal auctions the unneeded analog spectrum the FCC will reclaim after broadcasters have migrated to a new digital channel, and is expected to raise $17 billion through an auction of the analog and if necessary also a digital spectrum fee.
3. **Auction of "888" Toll-Free Numbers:** This proposal authorizes the FCC to award through an auction a new generation of toll-free "888" vanity telephone numbers, raising $700 million.
4. **Auction of DARS Spectrum To Help Pay for $1,500 HOPE Scholarships:** This auctions a portion of the spectrum previously allocated for digital audio radio services (DARS), but which is unsuitable for DARS because of interference problems, raising $2.1 billion.

New Proposal: Auction a Portion of Spectrum Between Channels 60-69 Which Will Fully Pay for the New School Construction Initiative. The President's School Construction Initiative is fully paid for by a new proposal -- not contained in any previous Administration budget -- to auction an additional portion of the spectrum. For several years the FCC has been studying the possibility of auctioning unused or underutilized portions of the spectrum located between existing TV stations. The FCC has now concluded that with the development of digital wireless technology, the space around TV stations can be auctioned and used without affecting these broadcast stations. Therefore, this new proposal would auction portions of the spectrum between channels 60-69 that are not being used for TV broadcasting. This portion of the spectrum was allocated free-of-charge to UHF television, but there are fewer than 100 stations across the United States using it, leaving a significant and valuable portion of spectrum between the stations that could be used for other wireless technologies. This new proposal would reallocate and auction these underutilized portions of the spectrum without disrupting the current broadcast stations. These portions of the spectrum could be used for exciting new PCS applications, such as mobile video, imaging, and other advanced voice and data services.

School Conditions By State

	Share of Schools With At Least One Building In Need of Extensive Repair	Share of Schools With At Least One Unsatisfactory Environmental Condition*	Share of Schools That Need To Spend Over The National Average To Bring Their Facilities Into Good Condition	Share of Schools That Lack Telephone Lines For Modems
NATION	33%	58%	21%	56%
Alabama	39.1%	57.7%	20.9%	55.4%
Alaska	44.6	72.5	42.6	53.8
Arizona	40.8	56.8	29.7	58.1
Arkansas	24.9	51.5	8.3	56.4
California	42.9	77.0	25.7	68.1
Colorado	32.2	53.2	20.2	56.8
Connecticut	30.0	60.0	29.7	51.9
Delaware	40.5	52.8	31.7	82.9
District of Columbia	49.3	68.3	48.8	52.7
Florida	31.2	71.6	33.8	63.2
Georgia	26.2	39.5	14.6	53.0
Hawaii	21.4	65.6	18.7	79.5
Idaho	31.9	53.2	13.3	58.8
Illinois	31.0	57.6	28.2	63.4
Indiana	29.2	55.6	36.3	55.0
Iowa	18.8	51.4	12.6	43.8
Kansas	38.3	67.0	17.2	44.4
Kentucky	30.9	53.0	26.2	55.7
Louisiana	38.6	56.5	23.6	65.5
Maine	37.5	59.0	11.8	63.8
Maryland	30.7	63.3	34.1	66.7
Massachusetts	40.8	71.3	18.4	66.9
Michigan	21.6	56.6	8.8	58.1
Minnesota	38.5	55.2	19.3	41.0
Mississippi	28.5	49.1	7.2	55.8
Missouri	27.3	51.2	13.7	59.1
Montana	20.4	55.1	6.0	37.5
Nebraska	35.2	55.5	18.4	45.7
Nevada	23.2	39.5	13.1	26.2
New Hampshire	38.4	70.6	15.4	58.6
New Jersey	19.1	46.1	16.4	33.5
New Mexico	29.9	63.2	25.8	58.5
New York	32.8	60.4	38.6	55.3
North Carolina	36.1	58.7	16.6	62.6
North Dakota	23.0	54.9	6.7	36.5
Ohio	38.0	68.0	22.8	70.5
Oklahoma	30.5	53.4	8.4	57.7
Oregon	38.9	73.8	16.9	65.1
Pennsylvania	21.0	48.3	21.2	44.2
Rhode Island	29.3	61.1	9.9	52.1
South Carolina	36.9	46.5	28.0	50.3
South Dakota	21.3	40.5	9.4	35.4
Tennessee	27.2	52.4	12.5	65.6
Texas	27.1	49.5	15.8	38.4
Utah	34.1	58.2	19.8	71.0
Vermont	21.4	51.3	13.3	61.4
Virginia	27.4	48.1	28.9	52.9
Washington	44.2	65.5	42.3	61.1
West Virginia	41.9	71.8	18.1	51.5
Wisconsin	32.8	50.5	13.2	46.4
Wyoming	24.4	54.8	8.5	33.8

*Environmental conditions include lighting, heating, ventilation, indoor air quality, acoustics for noise control, and physical security.

Source: General Accounting Office, June 14, 1996.

SUMMARY OF FINDINGS OF RECENT STUDIES ON THE SCHOOL INFRASTRUCTURE PROBLEM

I. GAO REPORTS

The General Accounting Office has released a series of reports on the condition of public school facilities, including a most recent report released on June 14, 1996, summarizing key findings and outlining the disparity between states.[1] The GAO studies have some limitations -- they are based on self-reported information from a sample of local school officials -- but they provide the best data currently available on the problem.

Scope of the Problem

- **$112 Billion Needed To Bring All Schools Into Good Overall Condition.** Based on its sample, GAO estimates that $112 billion is needed to bring all schools in the Nation to good overall condition (meaning that only routine maintenance and minor repairs would be required).

- **One-Third Of All Schools Need Extensive Repair Or Replacement.** GAO estimates that about one-third of all schools, serving 14 million students, need extensive repair or replacement.

  - About 60 percent of schools have at least one major building feature, such as plumbing, in disrepair;
  - Over half the schools reported at least one unsatisfactory environmental condition, such as poor ventilation, heating, or lighting problems;
  - Almost half (46 percent) of the schools reported inadequate electrical wiring for computers and communications technology, and
  - Over half (56 percent) reported insufficient phone lines for modems.

State and Regional Variation

- **There Are School Infrastructure Problems Across The Country.** Schools in almost all areas of the country report physical infrastructure problems, with somewhat more severe conditions in central cities, in the West, and in schools with high proportions of minority and poor students.

  - In central cities, 38 percent of schools reported needing extensive repair or replacement, relative to 29 percent in large towns.

    -- 65 percent of central city schools reported at least one unsatisfactory

[1] General Accounting Office, "School Facilities: Conditions of America's Schools," February 1995; "Technology: America's Schools Not Designed Or Equipped for 21st Century," April 1995; "School Facilities: States' Financial and Technical Support Varies," November 1995; "School Facilities: America's Schools Report Differing Conditions," June 1996; and "School Facilities: Profiles of School Condition by State," June 1996.

- The West generally had more severe conditions. For example, only 22 percent of schools in Michigan reported needing extensive repair or replacement, relative to 43 percent of schools in California.

    - 18 percent of schools in Georgia reported inadequate plumbing; 40 percent in Arizona did.

    - At least 70 percent of the schools in Alaska, California, Florida, Massachusetts, New Hampshire, Oregon, and West Virginia reported at least one unsatisfactory environmental condition.

- Over 40 percent of schools in which minority students represent more than half the student body reported needing extensive repair or replacement, relative to 29 percent for schools with less than 5.5 percent minority enrollment.

    - 70 percent of schools with large minority student bodies reported at least one unsatisfactory environmental condition, relative to 54 percent for schools with minimal minority enrollment.

Readiness of Facilities for Technology and Other Reforms

- **Schools Do Not Have The Physical Infrastructure To Take Advantage Of Computers And Technology.** Many schools do tend not have the physical infrastructure to make optimum use of computers, printers, TVS, and other equipment.

    - Over half (52 percent) of schools reported six or more insufficient technology elements (such as fiber optics cabling, phone lines for modems, and electrical wiring for computers).

    - In central cities, over 60 percent of schools report insufficient networks, modems, phone lines, conduits and fiber optic cables. Over half reported insufficient electrical wiring for computer technology.

Factors Contributing to Poor Conditions

- **Deferred Maintenance Cited As Reason For Poor School Conditions.** While numerous factors contributed to the poor condition of school facilities, many of the GAO survey respondents stressed the role of deferred maintenance.

    - This fact is supported by a recent Department of Education study of school spending, which indicated that school districts in central cities spend a greater portion of their budgets on instruction and less on buildings and equipment than other schools. [Disparities in Public School District Spending 1989-90. NCES 95-300, February 1995]

- **Other Causes For Poor Conditions Are Possible.** The concentration of facilities problems in the West and in poor areas suggests that other factors may be at work as well, such as structural problems in financing mechanisms, constraints on taxes, or competition with other community priorities.

Variation in State Support

- **Almost All States Have Some Role In School Construction and Maintenance.** While school construction and maintenance have traditionally been a local responsibility, almost all States now have some role, and 13 States have established comprehensive facilities programs.

    - States reported providing about $3.5 billion for school capital spending during fiscal year 1994 -- about a fifth of total school capital spending (including construction and purchases of land and equipment). However, the level of support varies widely by State, from $6 per student to more than $2,000 per student.

II. OTHER REPORTS CONFIRM GAO FINDINGS

- **Recent Study Finds 74 Percent Of All School Buildings Have Outlived Their Predicted Useful Lives.** A few years ago, the American Association of School Administrators released a study -- *Schoolhouse in the Red: A Guide for Cutting our Losses.* The study reported that 12 percent of all school buildings were "inadequate places for learning" and that 74 percent of all buildings had "outlived their predicted useful life." The report also cited a 1991 *School Business Affairs* article which estimated that deferred maintenance exceeded $100 billion.

- **1989 Study Found That 25 Percent Of The Nation's Schools Were Inadequate.** A 1989 report -- *Wolves at the Schoolhouse Door* -- by the Education Writers Association based on a survey covering half of the nation's schools, found that 25 percent of the Nation's schools were shoddy places for learning.

III. CURRENT CONSTRUCTION ACTIVITY

- **Total School Capital Spending -- on Construction, Renovation, Land, and Equipment -- Was $20 billion in 1994.** About half of this was for construction and renovation.

- **Spending on Construction and Renovation was $10 Billion in 1995.** According to *School Construction Report,* school districts completed $10.3 billion worth of construction in 1995. This figure is based on a survey of current construction activity conducted by *School Planning and Management* magazine and Dun and Bradstreet [*School Construction on the Rise*, Paul Abramson, CEFPI].

- **More Than Half Of Construction Spending Is For Renovating Or Upgrading -- The Rest Is For New Schools.** Just over half of construction spending is for renovating or upgrading existing buildings, rather than building new structures. In 1995, $5.3 billion was spent on additions and upgrades, while $5.0 billion was spent on new schools.

PRIMER ON FINANCING SCHOOL CONSTRUCTION AND RENOVATION

What do schools spend money on?

Capital spending on new buildings and renovation, equipment, and land accounts for about one tenth of annual public elementary and secondary school spending. In 1994, $20 billion was spent on public school capital projects, $6 billion on interest payments, and $235 billion on current expenses, such as teachers' salaries and administrative costs. Roughly half of total capital spending -- or about $10 billion -- is for construction and renovation of buildings, rather than purchases of equipment and land. [Source: *Statistical Abstract of the U.S.*, 1995, pp. 161 & 167]

How do schools finance construction and renovation?

School districts typically finance their current spending with a mix of local, state and federal funds, and finance their capital spending with tax-exempt bond issues. In most districts, bond issues must be approved through a referendum -- and sometimes a supermajority is required to pass the referendum. Bonds for school construction typically have 30-year maturities. Bonds issued for other school capital expenses, such as major renovations, often have 20-year maturities.

Some school districts finance capital expenses out of operating funds rather than bond issuance. But a recent Department of Education report documents that in districts with low property assessments and large school-age populations, most operating funds must go toward meeting minimum requirements for instructional expenditures per pupil, leaving less for physical plant. And even in some districts with relatively high property assessments, funds for school construction may be limited.

What is the role of state governments?

While financing school construction and renovation is predominately a local function, states provide roughly one-fifth of annual spending on local capital expenses, including land and equipment purchases. Most states play some role in financing school construction, although the extent of that role varies widely across states. These states often provide funds for local capital expenses through the sale of state bonds. In other states, funding is channelled through counties or townships, cities or towns, or special purpose local school districts.

What is the role of the federal government?

The Federal government currently provides a tax-exemption for local and state bonds -- reducing the interest rate on those bonds by roughly a third. The Federal government offers limited additional assistance for school construction and renovation, for example through the Impact Aid program which provides assistance to areas with military installations and Indian reservations.

How does tax-exempt status reduce interest costs?

The tax-exempt status of bonds -- often referred to as municipal bonds -- reduces interest costs for local and state governments, since investors care about after-tax returns and are therefore willing to accept a lower interest rate on a tax-exempt bond than on a taxable bond. For a taxpayer in the 28 percent tax bracket, a taxable bond paying 8 percent has an after-tax interest rate of 5.8 percent. Such an investor would thus prefer a tax-exempt bond with a interest rate of 5.9 percent (with a 5.9 percent after-tax interest rate) to a taxable bond with a interest rate of 8 percent (with a 5.8 percent after-tax return). If interest rates on comparable taxable bonds are 8 percent, a tax-exempt municipal bond can therefore be issued with a interest rate just over 5.8 percent. The current interest rate on a 30-year tax-exempt bond is roughly 6 percent, well under the current 30-year Treasury interest rate.

What is the average size of an education bond issue?

The average amount of the most recently passed bond issue in the school districts surveyed by the GAO was $7 million. Of this $7 million, 54 percent was spent on school construction; 38 percent for repairing and modernizing schools; 5 percent for computers and telecommunications equipment; and 3 percent for meeting Federal mandates. [Source: GAO, "School Facilities: Condition of America's Schools," February 1995, p. 18]

Special problems faced by small districts.

Small school districts face special problems in bond financing. First, their low tax bases often make it difficult to pay financing costs. Second, their bond issues are relatively small and unfamiliar to investors, making them less attractive. State bond banks can help these entities by pooling their needs and issuing a single state bond. Many states, such as Arkansas and Indiana, have programs that fulfill this role.

How much does it cost to build or fix a school?

According to the GAO, the average school in America reported needing $2 million to repair and upgrade to good overall condition. The average new elementary school costs about $6 million to construct, and the average secondary school costs about $15 million. [Source: GAO, "School Facilities: America's Schools Report Differing Conditions," June 1996, pp. 3 & 12.]

SCHOOL CONSTRUCTION AND TECHNOLOGY:
Preparing Our Schools for the Information Era

PRESIDENT CLINTON'S NEW SCHOOL CONSTRUCTION INITIATIVE WILL HELP CONNECT ALL CLASSROOMS TO THE INFORMATION HIGHWAY: Technological literacy is a "new basic" of American education and the Internet is the blackboard of the future. Yet thousands of schools find it difficult to provide the powerful learning opportunities afforded by technology because they lack the basic electrical wiring and phone lines necessary to plug in computers and connect them to the Internet. As we repair and replace dilapidated and unsafe schools, we must ensure that they are "21st century schools." This means wires, electrical capacity, electrical outlets, and cable and telephone lines that will allow students to take full advantage of the learning opportunities that technology offers.

The School Construction Initiative will support the President's vision of connecting all classrooms to the information superhighway by the year 2000 by helping those schools with the worst conditions efficiently upgrade their technology infrastructure as they repair other problems. such as leaky roofs, plumbing, wiring, or heating and air conditioning.

EVEN SCHOOLS WITH POOR INFRASTRUCTURE CAN MAKE SOME PROGRESS IN ADOPTING EDUCATION TECHNOLOGY.

- New wireless solutions, for example, will help schools with inadequate infrastructure take advantage of educational technology immediately.

BUT THE BASIC INFRASTRUCTURE OF OUR SCHOOLS REMAINS A MAJOR BARRIER TO BROADER USE OF EDUCATIONAL TECHNOLOGY IN THE CLASSROOM:

- 54% of schools report that too few telecommunications access points are a major barrier to networking their computers and accessing the Internet; even the majority of the schools that already have Internet access report that an insufficiency of telecommunications access points is a major barrier to upgrading or maximizing the use of their computers. (Advanced Telecommunications and U.S. Public Elementary and Secondary Schools, 1995, National Center for Education Statistics)

- 46% of schools (35,700 schools serving 19.3 million students) lack the electrical wiring necessary for computers and telecommunications technology. (GAO, School Facilities: America's Schools Not Designed or Equipped for 21st Century)

- 55.5% of schools (42,700 schools serving 22.5 million students) lack phone lines for modems necessary to connect to the Internet. (GAO)

- In central cities, over 60% of schools report insufficient networks, modems, phone lines, conduits, and fiber optic cables; over 50% report insufficient electrical wiring for computer technology. (GAO)

THE SCHOOL CONSTRUCTION INITIATIVE SUPPORTS A BROADER ADMINISTRATION STRATEGY ON EDUCATIONAL TECHNOLOGY

- The President has launched a national mission to make all children technologically literate by the dawn of the 21st century. His initiative rests on four "pillars" that will: provide all teachers the training and support they need to help students learn using computers and the information superhighway; develop effective and engaging software and on-line resources; provide access to modern computers for all teachers and students; and connect every school and classroom to the information superhighway.

- To help states and communities build all four pillars, the President has proposed the creation of a $2 billion, five year, Technology Literacy Challenge Fund to catalyze and leverage state, local and private sector efforts.

- To help connect more classrooms to the Internet, the President has fostered an historic effort by volunteers to wire schools. During California's Net Day on March 9, 1996, more than 20,000 volunteers installed and tested 6 million feet of wire to connect classrooms in thousands of schools to the Internet. Since California's successful "electronic barnraising," over 30 states have embarked on their own efforts.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 11, 1996

PRESS BRIEFING
BY NATIONAL ECONOMIC ADVISOR, DR. LAURA TYSON AND
DEPUTY ASSISTANT TO THE PRESIDENT FOR ECONOMIC POLICY GENE SPERLING

The Briefing Room

12:50 P.M. EDT

MR. MCCURRY: Good afternoon. Welcome to the White House. In a very short while, as you know, the President will unveil a school construction initiative that is a very exciting proposal that we're putting forward. You all know that the President has been working almost constantly to do things to improve the quality of education and the environment for education in America's public schools. You've heard him talk about issues ranging from school uniforms to truancy to curfews to getting gangs out of our schools to making sure that our schools are weapons free. But a lot of that won't matter much unless the physical infrastructure of the school campus is conducive to a learning environment.

The President, partly in response to a recent General Accounting Office report that documented the need for further investment in school construction, today will put forth an initiative that is quite exciting. It is the result of a lot of hard work by the National Economic Council. And I'm delighted that various members of the administration are here, but chief and foremost, the President's National Economic Advisor, Dr. Laura Tyson, who will tell you about the proposal, how it works. I think you've had a chance now to look through some of the materials we've made available, but Dr. Tyson will be happy to take questions and walk you through the proposal the President will make shortly.

Laura. Thank you.

DR. TYSON: Thank you. Well, as you all know, expanding and improving lifetime educational opportunities for all Americans are key components of the President's economic growth strategy. Today he is going to announce yet another instrument in his campaign to provide world-class educational opportunities for all Americans.

This is an initiative that focuses on the rebuilding and improvement of the nation's K through 12 public schools. As Mike mentioned, there's compelling evidence of the need for such an initiative. We have recent GAO studies indicating that a third -- a third -- of the nation's schools, serving 14 million students, are in need of extensive repair or replacement to provide good conditions for learning.

We have evidence that about half of the nation's public schools do not have the adequate fiscal infrastructure to support the use of computer technology -- technology which has been demonstrated to aid in the learning efficacy of the classroom. And we have evidence that many parts of the nation are in need simply of additional classroom space because we have a projected enrollment increase nationwide of 11 percent between now and 2005.

Now, to help address these pressing needs, the President's announcing a $5-billion program. The program will reduce the interest costs of new school construction and renovation projects by up to 50 percent. The program will span a four-year period, and it has several features.

First of all, you have to start with the information that school construction is typically funded through tax-exempt bonds that currently carry interest rates of about six percent. The new initiative would provide an interest subsidy of as much as 50 percent. That would mean, for example, instead of paying an interest rate of six percent, an interest rate would be effectively reduced to three percent over the life of the project. And we would propose a sliding scale so that communities most in need would be eligible for the full 50 percent interest rate subsidy, while communities with a smaller need or less needy would get somewhat smaller subsidies. So that's the first general feature of the program.

Secondly and importantly, local districts would continue to take responsibility for developing the projects and for providing most of the financing for the projects. To be eligible for this support, in other words, the local community would have to raise the bulk of the financing. Federal support should make it easier for state and local governments to do the right thing because we would be helping to cut the cost of the financing of the project. So this should be understood as a partnership -- one of shared responsibility between the state, federal and local governments.

A third characteristic of the program is that the bulk of the credit subsidies would be allocated and administered by the states among the local communities. The states would have to have plans to ensure that funding is allocated by the relevant state authorities according to need -- need is certainly an important item here -- and also according to evidence that the interest rate subsidy is being used to support construction that otherwise would not have occurred. What we're trying to do here is fashion a program to encourage additional incremental funding of projects that would otherwise not have occurred without the subsidy. And so, part of the criteria here will focus on that incremental nature of the project.

A fourth characteristic is that the subsidies that would be made available could be used for a wide range of projects -- renovation, repair, construction of new facilities, fixing classrooms; for example, fixing wiring, adding wiring, improving energy efficiency, improving access for students and others with disabilities -- so that we would leave the project specification fairly broad to incorporate essentially the best information from the state and local governments about what is the most effective thing to do and the most pressing need to address.

Finally, although most of the support would be administered by the states, the 100 largest school districts by poverty, and perhaps as many as 25 or so additional large school districts, determined by the federal government to have special needs, would apply directly to the Department of Education for their credit subsidy. We believe that this approach will ensure that these large districts, particularly needy districts, particularly extreme kinds of needs, will receive adequate attention and appropriate treatment in the process of allocating the funds.

Now, just two additional points. Like all of the President's educational initiatives, this initiative is fully paid for and is fully consistent with balancing the budget by 2002. The $5 billion in federal funding over four years will be paid for by auctioning a portion of the broadcast spectrum between channels 60 and 69 that is not currently is use for TV broadcasting.

What's happened here is the technology keeps improving; the new digital technology has essentially freed up some new space on the broadcast spectrum, and that means the space can be used without disturbing the TV broadcasting that's already going on.

I want to emphasize -- and the documentation for this initiative makes clear -- that this is new funding from the spectrum. It is in addition to other spectrum proposals in our budget. So there's no double-counting here. This is new area on the spectrum that has been found, and it can be auctioned off for this price of $5 billion. So it is fully consistent with the budget.

Finally, let me just say what we anticipate in terms of the magnitude of effect from a program of $5 billion of federal support over a four-year period. Think of this as essentially the government is doing something to reduce for some period of time the costs to the local community of trying to finance repair, renovation and construction. And we anticipate that every dollar that the federal government puts in will subsidize about $4 billion of construction and renovation. In other words, the $5 billion that the federal government is going to put in should support $20 billion in construction and renovation around the country.

Now, one of the key criteria in allocating these subsidies will be what I mentioned before -- that the proposed activity is an incremental activity -- a construction project, a financing project that otherwise would not have been undertaken. We spent a lot of time on this and concluded that of that $20 billion that's supported by the $5 billion the federal government puts in, at least $10 billion of the $20 billion, with the criteria we're using we would anticipate would be incremental. What that boils down to is essentially we believe the $5 billion put in by the federal government will mean a 25-percent increase over the four years in projected spending on school repair, school renovation and school construction.

Finally, that estimate may actually be an underestimate. As I said, that's our sort of minimal estimate for the additional construction we would hope to obtain. There is an important bully pulpit aspect to this initiative. We believe that by calling federal attention to what is, after all, a program that -- a need which is national in scope, but a third of your schools are in need of repair and renovation, or 50 percent are in need of wiring for computer technology, you're not talking about just a local problem, you're talking about a national problem. By having the federal government involved in support and having the President involved in talking about this need with the nation, we believe we can really stimulate additional spending that will help provide educational opportunities for all Americans into the 21st century.

So let me stop with that as an introduction. There is some very good documentation that has been provided. I want to ask Gene Sperling to come up here. There are some others here that have worked on this, and I just want to introduce them so you know who's here: Joe Minarik, who is Associate Director for Economic Policy. Office of Management and Budget has worked hard on this. Mike Smith, the Under Secretary for Education at the Department of Education.

Josh Gotbaum, the Assistant Secretary for Economic Policy at the Department of the Treasury. And Mozelle Thompson, the Deputy Assistant Secretary for Domestic Finance of the Department of the Treasury.

We have had a very good group work long and hard on this proposal, and I think we can adequately answer all of your questions. So why don't we open it up to questions, and I'll have Gene come up and other experts.

Q Do you think you're going to be able to raise even more money by selling more space on the spectrum? I mean, is this it for now, and how much more is out there?

DR. TYSON: Well, let me say a couple of things about this. Number one, as I think you know, so far the auctioning that we have done on the spectrum has raised considerably more than we had projected ourselves. Secondly, technology is changing rapidly. What we are proposing here today is new precisely because the technology has only recently, and quite recently, made this space available. So we do what we can in the context of what technology does afford us.

Q But this is the limit right now, technologically?

DR. TYSON: It is my understanding that this is the limit right now, technologically, that's right.

Q This has to be approved by Congress?

DR. TYSON: This has to be approved by Congress.

Q

DR. TYSON: Well, I think that -- I would say two things in that regard. First of all, this is a well-documented need. The GAO study has been widely talked about by the press. It was mentioned, for example, by Pete Peterson. The need for school construction has been mentioned by Pete Peterson, it's been mentioned by numerous experts in the education area. I think Americans have shown in their -- in poll after poll and in their own statements to their representatives how important they feel the educational challenge confronting the nation is.

So I think there's strong support for this and strong documentation of the need. I think Congress can be affected by both evidence of the need and by evidence that their constituents would care about an initiative like this.

Q A different subject? On Cuba, are you concerned about the possibility of retaliation against American business if the President permits lawsuits?

DR. TYSON: Well, this is a briefing on the school construction initiative. What I will say is that, of course, the President will be making a decision in the next few days on this issue. As we said over and over again and when we went to Lyon, France, we believe that in exceptional circumstances, and certainly Cuba's actions are exceptional, sometimes one has to take exceptional means to try to influence a change in behavior of a rogue state.

Q I'm sorry, as a follow-up, are you concerned about the possibility of retaliation?

DR. TYSON: Let me just say that we are going to do what we think is appropriate to do in this case based on the need to take action to respond to Cuba's rogue behavior. In any action we take, the pros and cons, the costs and benefits of an action are always considered.

Q With so many schools in such bad shape, as you've outlined here, why did the administration wait until this particular moment to unveil this plan?

DR. TYSON: Well, I think as you know, some of this information is relatively new. The documentation of the need has been most thoroughly done by the GAO, and that has been a fairly recent development. The President has, I would say, a very long record, as you well know, of commitment in the education area and is, I think, always looking for things that are appropriate for the federal government working with state and local governments to do, or working with families to do, to increase educational opportunities.

Here is a case in which we have a very well documented need and an ability to move on that need right now. What's I think important about this program is this is a kind of jump-start program; it would last for a limited period of time, a limited amount of money, and we would hope that that would encourage state and local governments to take action now to address what is documented to be a major national need.

Q So it has nothing to do with the campaign?

DR. TYSON: I think it has to do with priorities. I think it has to do with priorities, and I think a campaign is about priorities. I think that clearly a campaign is about making a choice. And I think that the President's commitment to education as a key priority that defines his administration both in terms of values and in terms of economic growth strategy and in terms of economic opportunity strategy, that this initiative certainly is a defining initiative. But the President's priorities have been clear from the beginning in terms of commitment to education. And the campaign is about priorities, and it's about values.

Q I understand there's a sliding scale in terms of the amount of subsidy they would get. Was there any thought of means testing this so that all of the federal assistance would go to poor school districts and you wouldn't be giving any of it to relatively well-off school districts that can pay for their own?

DR. TYSON: We did talk about various ways to design this, and that was one possible design element. We really decided a sliding scale would essentially allow for the broadest possible involvement of local communities in thinking through their repair, renovation and construction needs and then applying for federal assistance.

Now clearly, there's a limited amount of money, and need is one of the aspects that -- one of the criteria for allocating the money. So need will be certainly a major criteria.

MR. SPERLING: The other thing is, in doing this, we would, in proportioning the money, while we would tried to make it proportional, we would try to make the formula targeted more towards need and poverty. So in dividing up among the states, or in the amount that would be administered to the 100 cities -- as you know, the top 100 cities with the highest amount of children in poverty would apply to the Department of Education. The pool that would be reserved for that would be more than just the proportional amount per student. It would take into account poverty.

So what we chose to do was to make this more of a universal program, but allow for different types of targeting so that you could ensure that more could go to the places with the greatest need.

One of the other problems with the way -- that suggest that, is there are some school districts that have both very well-off school districts and very poor -- well-off communities and poor communities inside. So it would not necessarily be so easy to just simply define a school district or exclude a school district. This way, we're recognizing a national problem.

In fact, what the GAO report showed I think that was significant, I think a lot of us knew that there were serious problems in the central cities. What this showed was that in addition to that, it was fairly widespread. And so this is a way that we could address that as a national problem, but allow for both targeting the subsidy and in doing the formula proportionally to allow poverty and need to be taken into account.

Q Gene, that formula is not devised yet? Is that still to be worked on?

MR. SPERLING: We are working on it now. One way -- what one could do is look at the number of Title I students in each state as kind of an indicator. But, as you know, in looking at other areas, formula divisions are relatively controversial and it's usually better done in some kind of coordination with the governors and mayors. So I think we wanted to leave a little flexibility in working that out.

Q I don't mean to belabor this. Can I have just one follow-up? If that formula's not done yet, can you answer this question: What would be the minimum assistance that, say, the wealthiest school district like Montgomery County in Maryland or Fairfax in Virginia could get? In other words, you get full 50 percent if you're among the poorest, but what would be the minimum?

MR. SPERLING: Well, I think the state -- the state could make a decision. I mean, the state could decide, first of all, that something -- an application was kind of a standard, normal amount of repair they were doing, it did not reflect a new or additional effort. And the state may decide they do not -- that they want to make that decision. But if they also felt there was something worthy, they could decide to give a 10 percent interest subsidy. They would have that flexibility.

Q When will you actually send this legislation to Congress?

MR. SPERLING: I don't think we know at this moment. I think we have to look at the legislative calendar and what else is happening right now. Obviously, there's still quite a bit in the appropriations. So I think that's something we'd have to --

Q Realistically, this is something that you would send up after -- if the President is reelected to a second term?

MR. SPERLING: I think we would have to see how the legislative calendar looked. I certainly think that if we thought there was the opportunity to pass this now, I think we would. I would say the following: We will certainly be shopping this around and seeing if we -- and trying to build a momentum and consensus for passing this. And if there is that consensus, then we could even draft it and begin taking that into account if there is bipartisan willingness to work with us.

So I think we would, I think, test out the waters and see if we had a chance of passing legislation. And it could be that with all the attention that was raised by the GAO report, which received not only national attention but very targeted local needs analysis statement, and if there's a positive reaction, then I think that we could definitely go forward with this. We definitely -- the people we spoke with on the Hill, are interested. But whether there would be a serious push, it's hard -- some of us may like that, but it has to obviously weigh in with all the other things, including Kassebaum-Kennedy, finishing minimum wage, and all the appropriation bills.

Q So are you, at the federal level, setting up the criteria by which these applications will be judged, but then the states will administer them? Is that the framework that you're looking at?

DR. TYSON: I think there is some general criteria. The states would obviously have lots of room within those general criteria. I mean, what we've written down there, what we've thought about is that need is clearly one. A second one that's very important and gets at the Montgomery County issue or any other school district issue is we would like there to be evidence that this is a project or an activity which otherwise would not have been undertaken. It's not that we want things to be pulled off the shelves that they were going to do anyway, but new projects.

We also have a list there of things -- purposes for which the project would be designed -- classroom improvement or expansion, energy efficiency. There's a list of about seven things. I think, obviously, there are tens of thousands of school districts that are going to -- if they apply, we felt the state would be much better equipped in most cases to evaluate a particular proposal according to those criteria and do a comparison among competing proposals. So there should be plenty of room really for state discretion here.

MR. SPERLING: I think that, if you look at the purposes, they're quite broad. I think, obviously, in listing the purposes, it was in many ways meant to exclude things that might be frivolous. And so, we wanted to make sure they were for valid educational purposes. And our notion was that a state would have the responsibility to come forward to show that they had a plan for criteria that would take into account overall need and, as Laura said, incremental additions to their school infrastructure.

So we would want to make sure that they were at least complying with the spirit of this as opposed to us saying, here are the criteria you must do. We would just ask that they come forward with a good faith plan that shows that they would be taking that criteria into account when making their decisions.

Q And that would be required in order to receive this money -- a state plan?

MR. SPERLING: At least the state showing that they would have that type of criteria in their decisions.

Q Senate leaders recently wrote a letter to the FCC calling for the giveaway of the spectrum to broadcasters for digital high definition TV. This morning there was a press conference of grass-roots organizations saying that that should be auctioned, and the proceeds of that should either go to public broadcasting or could be used -- for example, $40 billion to build more than 5,800 schools around the country. You're just talking about the auctioning of the channels 60 to 69. What about the auctioning of that full spectrum that's being talked about as a giveaway?

MR. SPERLING: We'll let Greg get up. First of all, I just wanted to point out that in this document, we tried to provide something that shows -- if you look at the page on the offsets, on page six, that walks through the different proposals we have and where some of them are. And some of that for us is already committed to our balanced budget proposal. So if we were to use any of those funds for another purpose, we would, in a sense, be double-counting. And so we were looking for -- and this was a new additional program. We were looking for a new additional offset. So this is a one-time, four-year program being paid for by a one-sale.

But Greg Simon, who is the Vice President's and really the President's expert on this issue could answer further.

MR. SIMON: The two points you raised -- first, the letter to the FCC suggesting that they give away the digital spectrum. We have opposed the idea of auctioning the digital spectrum, and we have proposed a plan to award, not give away -- and there's a difference -- the digital spectrum with certain public interest obligations that attach to its use, i.e., children's television, political debate and other things that are made possible by the abundance of channels that digital television will enjoy.

But we have said, because the transition to digital television is so important, both technologically and culturally, that we would award the digital licenses and then require the return of the channels television stations use now by the year 2005, and auction those channels, which, when they're all bundled together we feel are more valuable than if we were to auction the digital channels today.

Now, what we're doing in the proposal today, channels 60 to 69 are the least-used channels. There are only about 100 stations nationally that operate in that band. We are not moving any of those. They are protected under this proposal. But what we're doing is we're taking the value from the public's property in the air and we're using that value to renovate the public's property on the ground. And that's what we're doing in the channels 60 to 69.

Q A follow-up. Whether you're awarding it or you're giving it away, you're still not auctioning it, and it's worth $40 billion. The broadcasters will profit from this handsomely. Why not auction it?

MR. SIMON: Number one, CBO has never scored it, nor has OMB, to be worth $40 billion. The digital spectrum has been scored at around $12 billion by CBO. A lot of people have said all kinds of numbers. We can't operate on hypotheses like that.

Number two, the letter to the FCC that you referred to did not talk about giving back the channel they have now, nor did it talk about attaching any public interest obligations to the digital channels. We do attach public interest obligations and require the return of the analog so that it can be auctioned.

And I'd point out, there are a lot of people who estimate the value of these two different proposals who say that the auction of the analog is more valuable than the auction of the digital -- because of the way it's packaged it's more useful to people. If you auction the digital today, you're auctioning all the channels in between channels -- 5 and 7, channels 8 and 10, or 7 and 9. That is a very difficult spectrum to you. So the hypotheses that this is a gold mine is not borne out. The theory that there should be a public interest return is what we have said, both in obligations for the digital channel and in revenue from auction of the analog channels by the year 2005.

Q There's been a fair amount of criticism of the President's computers in the schools initiative on just this very point, that it ignores infrastructure problems like crumbling walls and peeling paint. And I'm wondering if that was part of the motivation for this initiative to try and counteract that criticism.

MR. SIMON: Well, number one, we have discovered in Net Day in California that when parents show up to help wire the schools and they see the shape some of the schools are in, they come back to paint them, to repair them, to fix windows. So once you get people interested in the infrastructure of schools at any level, they become involved at every level.

And number two, of course, we want to renovate the schools so that they're capable of being wired and being able to use the new educational technologies. The beauty of Net Day was it used a kind of wire that does not require special inside-the-wall wiring. You could send it through the ceiling and through heating ducts. Not every school can do that. So this is all of a piece. If we build the schools and then keep the chairs bolted to the floor and they can't use a phone or a computer, then we haven't done what we should do.

THE PRESS: Thank you.

END 1:17 P.M. EDT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 11, 1996

REMARKS BY THE PRESIDENT
ON THE SCHOOL RECONSTRUCTION INITIATIVE

The Rose Garden

2:15 P.M. EDT

THE PRESIDENT: Thank you very much. I want to welcome Senator Moseley-Braun here, along with Senator Claiborne Pell, Senator Bob Graham, Congressman Ben Cardin, and Congressman Elijah Cummings. I thank them all for their concern for this issue and their leadership.

I think some of you know that I had originally planned to make this announcement in Senator Graham's home state in Florida, but Hurricane Bertha had other ideas. So before I get into the announcement, let me say that we are all watching the course of that storm. We pray that it doesn't cause extensive damage. The people of the Southeast know that we will be there to help them if it does. FEMA is now on the ground, and they are prepared. Our thoughts are with the people of the Southeast. And, again, we're hoping for the best.

I'm here to announce a national commitment to rebuild our schools so that they can serve our children in the 21st century. Our nation's mission must be to offer opportunity to all, to demand responsibility from all, and to come together as a community so that we can build better lives together. Our most basic expression of these values is perhaps the education we offer to our children.

We've worked hard to make our young people the best educated in the world as we enter the 21st century, putting in place a comprehensive strategy to renew our schools, to lift our standards at every level. We've expanded the Head Start preschool program. We've helped schools to help to set and to meet higher standards. We've also worked hard to develop higher standards and better training for our teachers. And we've created an important network of school-to-work programs for young people to be properly trained if they don't go on to four-year institutions of higher education.

We're now on our way to connecting every classroom and library in the United States to the Internet by the year 2000. We're making our schools safer with the zero tolerance for guns in our schools, and by encouraging and supporting communities to take their own initiatives, including school uniforms, imposing curfews, and stronger enforcement of the truancy laws. We're opening the doors of college wider than ever, through lower-cost student loans, including better repayment terms; expanded Pell Grant scholarships -- Senator Pell, thank you for that; AmeriCorps; and our proposals to give families tax cuts to pay for higher education.

But all this progress is at risk if our children are asked to learn in a landscape that is littered with peeling paint and broken glass if our teachers are asked to build up children in buildings that are falling down.

I remember the schools that I attended. They were pretty typical. Most of them were fairly old when I was there. They weren't fancy, but they were clean, they were well-maintained, they were treated with respect. They sent every student a clear message: You are important to us. We take your education seriously. That was how my parent's generation kept faith with us, and that is how we must keep faith with our children. (Applause.)

Now, Senator Moseley-Braun mentioned this report from the General Accounting Office. I want to hold it up again because I want to urge every member of Congress, every governor, every state legislator, every local school official, every school board member who cares about the condition of education and the future of education in our country to get a copy of this report and to read it.

The report came out three weeks ago. It was requested by a number of senators, and it confirms that we are not honoring this generational compact.

I want to thank here, before I go forward, the members of the Senate and the House who have been interested in this. Those who are here whom I've introduced and, especially, Congresswoman Nita Lowey who is sponsoring efforts in the house along with Congressman Cardin and Congressman Cummings and others, but most especially Carol Moseley-Braun. She was the first person who brought this matter to my attention as an area where the national government ought to do something. And she has been literally dogged in her persistence in this issue, staying with it day in and day out, week in and week out, month in and month out. The schoolchildren of our nation owe her a debt of gratitude. (Applause.)

The report shows that our nations schools are increasingly rundown, overcrowded and technologically ill-equipped. Too many school buildings and classrooms are literally a shambles. According to the report, one-third of our schools need major repair or outright replacement; 60 percent need work on major building features -- a sagging roof, a cracked foundation; 46 percent lack even the basic electrical wiring to support computers, modems, and modern communications technology. These problems are found all across America, in cities and suburbs and one-stoplight towns.

This is a matter of real urgency. In just two months our schools will open their door to the largest number of students in the history of our republic -- 51.7 million. And enrollment is expected to continue to rise over the next few years. We have to rebuild these schools for another reason as well. Increasingly our schools are critical to bringing our communities together. We want them to serve the public not just during the school hours but after hours: to function as vital community centers; places for recreation and learning, positive places where children can be when they can't be at home and school is no longer going on; gathering places for young people and adults alike. Bringing our schools into the 21st century is a national challenge that demands a national commitment.

Today I am proposing that the federal government for the first time join with states and communities to modernize and renovate our public schools. We will provide $5 billion over the next four years for school construction and renovation. Together with investments by states and localities, this would result in $20 billion in new resources for school modernization. That's a 25 percent increase over the next four years.

Our school construction initiative would be flexible. It would give communities and states the power to decide how to use the new resources. It would help those who help themselves -- requiring local communities to take responsibility for this effort. And it would focus on sparking new projects, not merely subsidizing existing ones.

The schools of the future should be safe and spacious -- good places to learn. The schools of the future should be equipped with computers, new media and state of the art science labs. And the schools of the future should not only teach our children during the day, but bring together families and neighbors in the evening as community schools. Our initiative can help to make these goals a reality.

You know, we expect an awful lot of our schools. We expect a lot of our students in this age of possibility. And all Americans have a lot riding on their living up to these expectations. But we cannot expect our children and our teachers to build strong lives on a crumbling foundation.

This generation has a duty to give the next generation a future of genuine opportunity. Our children deserve the best. I am determined that they will get it. And this proposal will go a long way toward helping those folks who are out there on the front lines of education to succeed and to build the brightest, the best prepared, the most secure and the most successful generation of young people in the history of our nation.

Thank you very much.

END 2:25 P.M. EDT

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THE PRESIDENT HAS SEEN

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THE WHITE HOUSE

WASHINGTON

96 JUL 18 P6:26

July 18, 1996

MEMORANDUM FOR THE PRESIDENT
THE VICE PRESIDENT

FROM: LAURA TYSON
GENE SPERLING

SUBJECT: Media Coverage of the School Construction Initiative

While Thursday's announcement of your School Construction Initiative received considerable national media coverage, most impressive is the volume and quality of the highly positive regional and local coverage.

HIGHLIGHTS:

- **Pre-Event Front-page *USA Today* Article**

- **Front Page Articles:**
  - *Cincinnati Enquirer*
  - *Pittsburgh Post-Gazette*

- **Positive Regional Articles:**
  - *Los Angeles Times* (2 stories)
  - *New Jersey Star Ledger*
  - *Pittsburgh Post-Gazette*
  - *Kansas City Star*
  - *Tulsa World*
  - *Baltimore Sun*
  - *Portland Press Herald*
  - *Seattle Times*
  - *Charleston Gazette*
  - *Boston Herald*
  - *Minn. Star Tribune*
  - *Houston Chronicle*
  - *N. O. Times Picayune*
  - *Cincinnati Enquirer*
  - *Newsday*
  - *Chicago Sun-Times*
  - *Miami Herald*
  - *NY Daily News*
  - *Chicago Tribune*
  - *Detroit Free Press*
  - *NY Daily News*
  - *Clev. Plain Dealer*

- **Pictures of the President with Sen. Carol Moseley-Braun:**
  - *New York Times*
  - *Washington Times*
  - *New Jersey Star-Ledger*
  - *Detroit Free Press*

- **TV Coverage**
  - **Mention on *ABC World News Tonight***
  - **Numerous positive stories ran on CNN and *CNN Headline News***
  - **Reports on *CBS Morning News and NBC Today.***

COPY

SUMMARY OF MEDIA COVERAGE OF THE SCHOOL CONSTRUCTION INITIATIVE

TELEVISION COVERAGE

- *ABC World News Tonight.* 6th story in broadcast Peter Jennings did a voice-over describing in 30 seconds your announcement.

- *CNN.* A number of positive stories ran on CNN and Headline News throughout the day.

- *NBC Today Show.* Brief mention of announcement at top of morning news.

- *CBS Morning News.* Brief mention of announcement at top of morning news.

PRINT COVERAGE

- *USA Today,* July 11. FRONT PAGE article on President Clinton's school construction initiative. Headline: "Clinton offers money to fix aging schools."

- *Boston Globe,* July 11. Page 3 of Front Section. Headline: "Clinton to offer plan to rebuild public schools." Insert: "Massachusetts ranked among the worst states for the physical condition of its schools, according to GAO reports."

- *New York Times,* July 12. Page 12 of Front Section "National Report" -- Picture of President Clinton with Sen. Moseley-Braun. Headline: "President Announces Plan To Foster School Repairs." Sub-Headline: "$5 Billion Would Help Pay Cost of Bonds."

- *Washington Post,* July 12. Page 19 of Front Section "Campaign '96". Headline: "Clinton Seeks $5 Billion For Schools." Sub-Headline: "Plan Would Subsidize Loans for Renovation."

- *Chicago Tribune,* July 12. Page 5 of Front Section. Headline: "Clinton proposes major fixup for schools." Sub-Headline: "U.S. would raise $5 billion through broadcast auction."

- *Washington Times,* July 12. Header on FRONT PAGE with article on Page 4 of Front Section -- Picture of President with Sen. Moseley-Braun. Header: "SCHOOL REPAIRS -- President Clinton announces a plan to repair public school buildings." Headline: "Clinton earmarks $5 billion to rebuild nation's schools."

- *Detroit Free Press,* July 12. Page 8 of Front Section. Headline: "Clinton proposes plan to rebuild U.S. schools." Sub-Headline: "Republicans call it election tactic."

- *Miami Herald,* July 12. Page 3 of Front Section -- with Graphic. Headline: "Clinton proposes billions to fix crumbling schools." Graphic of school disrepair entitled "Shabby Schools" including list of 10 best and worst states.

- *New Jersey Star-Ledger*, July 12. Front Section article -- Picture of President with Sen. Moseley-Braun. Headline: "Clinton unveils $5 billion school repair plan." Sub-Headline: "TV spectrum auction would fund program."

- *Minneapolis Star-Tribune*, July 12. Header on FRONT PAGE with article on Page 4 of Front Section. Header: "Federal help to repair schools." Headline: "Clinton seeks $5 billion for school repairs."

- *Louisiana Times-Picayune*, July 12. Short article on Page 2 of Front Section "National Briefs". Headline: "Clinton Proposes $5 billion to fix schools."

- *Chicago Sun-Times*, July 12. Page 12 article. Headline: "Clinton funding proposal could give schools here $75 million for repairs."

- *Boston Herald*, July 12. Page 4 article. Headline: "School bosses cheer $5B fed repair plan."

- *Kansas City Star*, July 12. Page 3 of Front Section. Headline: "Clinton suggests aid for fixing up schools."

- *Los Angeles Times*, July 11. Page 12 of Front Section. Headline: "Clinton to seek $5 billion for school repairs."

- *Chicago Tribune*, July 11. Page 18 article. Headline: "Clinton to push $5 billion plan to fix, build schools."

- *Des Moines Register*, July 11. Page 6 of Front Section. Headline: "Clinton will propose $5 billion to help repair public schools." Sub-Headline: "The program of subsidies will need the approval of Congress, however."

- *Des Moines Register*, July 11. Page 6 of Front Section. Headline: "Little impact seen in Des Moines." Lead: "President Clinton's school construction proposal probably won't have a big impact on the Des Moines school district's Vision 2005 building improvement plan, a school official said Wednesday."

- *Charleston Gazette*, July 11. Page 8 of B Section. Headline: "$5 Billion available for school repairs." Lead: "To help fix the nation's crumbling schools, the Clinton administration will propose spending $5 billion to help districts pay for repairs and new construction..."

- *Baltimore Sun*, July 11. Short article on Page 2 of Front Section "National Digest". Headline: "White House to ask funds for new schools, repair."

- *Los Angeles Times*, July 12. Page 15 of Front Section "Nation in Brief". Headline: "Clinton offers plan to renovate schools."

- *Cincinnati Enquirer*, July 12. FRONT PAGE article. Headline: "Schools: Fix-up aid lacking." Sub-Headline: "Offer to nation is $5 billion; Ohio alone needs twice that." Lead: "Federal help to repair the nation's crumbling school buildings is welcome, but falls far short of meeting needs, area school officials say."

THIS PAGE AND PERHAPS OTHERS IN THIS CASE ARE NOT AVAILABLE.

PLEASE REFER TO THE PAPER FILE FOR THE INFORMATION DESIRED.

- ***Salt Lake Tribune***, July 12. Short article on President's proposal. Headline: "Clinton Proposes Billions for School Construction."

WIRE REPORTS

- **AP**, July 11. Headline: "Clinton Proposes Billions to School Repairs."
- **Reuters,** July 11. Headline: "Clinton unveils $5 billion plan to rebuild schools."
- **UPI,** July 11. Headline: "Clinton proposes school renovations."

THE WHITE HOUSE

WASHINGTON

December 5, 1996

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: **LAURA D'ANDREA TYSON**

SUBJECT: **NEC STAFF WEEKLY REPORT**

The following is an update on NEC initiatives and policy development efforts:

Regional Economic Development and related issues: The NEC sponsored a meeting among EOP offices and four major foundations concerning regional economic development. The meeting concentrated on developing ways in which we could work together on various challenges in this area including, in particular, welfare-to-work. NEC staff will follow up with the foundations; an early result will be a briefing for the welfare-to-work team by the Annie E. Casey Foundation on their six city/region jobs initiative. NEC staff also met with other people working at the community level on regional issues.

Financial Institutions Reform: The NEC continued the policy development process with a briefing by Treasury to NEC, CEA, OMB, Legislative Affairs and Commerce staff about the Treasury financial modernization proposal. The discussion centered on substantive issues; issues concerning strategy and tactics will be considered at a meeting next week. Treasury has started to draft legislative language.

School Construction: The NEC led an interagency meeting on the school construction initiative, and followed up with Treasury and ED on development of both an options paper and legislative language. The options paper, which deals mainly with the issue of whether any or all of the funds should be distributed competitively and if so, how, should be available at the beginning of next week. Legislative language is currently being drafted by ED, based on specs considered by the interagency group, and should be available late next week for internal Administration discussions.

Accounting: NEC staff attended a Commerce Department-led meeting with the Financial Accounting Standards Board to discuss accounting for soft assets, including training.

Pensions: The interagency pension working group had an extremely successful meeting with a group of public pension funds (California, Ohio, Colorado, Texas) to discuss, among other things, their experiences making their defined benefit plans portable, and also who demands and takes advantage of portability. We will meet next week with another group, sponsored by the engineering profession, to discuss the same issue. Our own work on this continues. Meanwhile, Treasury is working extremely hard and successfully to ensure that all guidance necessary to implement the new small business pension plan included in the minimum wage bill is available as needed so that these plans can actually start up on the statutory starting date of January 1, 1997.

Activities of the Assistant to the President

LAURA D'ANDREA TYSON

Week of December 2, 1996

Internal: Dr. Tyson continued to attend daily budget meetings in Mr. Panetta's office. She pre-briefed the President for his meeting with President Menem. With Carol Rasco, she hosted a welfare principal's meeting; she also convened meetings on regional economic issues and Japanese trade and insurance issues. Throughout the week, she focused on the issues the Boskin Commission raised in their report on the CPI.

External: Dr. Tyson hosted a meeting of computer executives to discuss encryption issues. She appeared on the Fox News channel and CNBC's Capital Gains to discuss the administration's position on CPI.

Week of December 9, 1996:

Internal: Dr. Tyson will hold a meeting on NAFTA avocado issues and will continue to attend all budget meetings as they arise.

External: Early in the week, Dr. Tyson will host a reporter's roundtable to discuss various economic issues.

Activities of the Deputy Assistants to the President:

DAN TARULLO

Week of December 2, 1996

Internal: Mr. Tarullo chaired two deputies meetings this week, one on climate change, the other on Europe including agriculture issues and preparation for the US-EU Summit. Mr. Tarullo continued work on encryption, WIPO, and aviation issues.

External: Mr. Tarullo met with Antonio PuriPurini, Economic Minister of the Embassy of Italy. He also met with Takatoshi Kato, Vice Minister of International Affairs at the Embassy of Japan. On Thursday, Mr. Tarullo departed for a Sherpas meeting in Paris.

Week of December 9, 1996

Internal: Next week, Mr. Tarullo will chair a deputies meeting on agriculture issues. He will also work on ISTEA issues, and continue work climate change and encryption.

External: Mr. Tarullo will meet with representatives of Energy to discuss electronic restructuring. He will also meet with EU Ambassador Paeman.

GENE SPERLING

Week of December 2, 1996

Internal: This week Mr. Sperling continued to coordinate and attend Budget Deputies meetings to prepare for the Budget Principals meetings. He attended the Daily Budget Principals meetings as well. He also coordinated a series of follow-up meetings on New Initiative such as : School Construction, America Reads, Welfare to Work, and HOPE Scholarships.

External: This week Mr. Sperling met with representatives from the AFL-CIO and CEA to discuss CPI. At Erskine Bowles request, he also met with Sam Beard of Economic Security 2000 to discuss Mr. Beard's idea for remodeling Social Security. He participated the NEC 's meeting with various outside foundations to discuss their involvement in the President's policy proposals.

Week of December 9, 1996

Internal: Next week, Mr. Sperling will continue to participate in the Deputies and Principals Budget meetings. He will also continue to hold New Initiative meetings to prepare new legislation.

External: Next week, Mr. Sperling will meet with DPC and CNS representatives regarding the possible planning of a Citizens Service Summit. He will also attend a meeting with DC Business representatives from major national companies to discuss the Budget Process. Mr. Sperling will also convene with the Center for Community Change to discuss the Budget Process.

Document No.________

WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/27 ACTION/CONCURRENCE/COMMENT DUE BY: 2/28

SUBJECT: School Construction Initiative

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	✓	☐	McCURRY	☐	✓
BOWLES	✓	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
PODESTA	✓	☐	RUFF	✓	☐
MATHEWS	✓	☐	SMITH	☐	☐
RAINES	✓	☐	REED	✓	☐
BAER	✓	☐	SOSNIK	✓	☐
ECHAVESTE	☐	☐	LEWIS	✓	☐
EMANUEL	✓	☐	YELLEN	☐	☐
GIBBONS	☐	☐	STREETT	☐	☐
HALE	☐	☐	SPERLING	☐	☐
HERMAN	☐	☐	HAWLEY	☐	☐
HIGGINS	☐	☐	WILLIAMS	☐	☐
HILLEY	✓	☐	RADD	✓	☐
KLAIN	☐	☐	______	☐	☐
BERGER	☐	☐	______	☐	☐
LINDSEY	☐	☐	______	☐	☐

REMARKS:

Please advise

RESPONSE:

please let [illegible] are ok with this

→ Perhaps add a sentence at the beginning of the memo that indicates that the memo is "a [illegible] decision memo" [illegible]

Staff Secretary
Ext. 6-2702

THE WHITE HOUSE

WASHINGTON

February 26, 1997

MEMORANDUM FOR **THE PRESIDENT**

FROM: **GENE SPERLING**

SUBJECT: **School Construction Initiative**

BACKGROUND

On July 11, 1996, you announced an initiative designed to help local communities and states rebuild the nation's schools. The goal was to spend $5 billion over four years to spur $20 billion in school construction spending. Since the announcement, an NEC/OMB/Education/Treasury team has been gathering further information, refining the program and drafting legislation.

As announced, the initiative contained the following elements:

- The federal government would subsidize up to 50% of the interest on state or local school construction bonds, based on need;
- Federal funds would leverage **additional** spending on school construction and rehabilitation, not substitute for already-planned spending;
- Most of the Federal money would be administered by the States, whose participation would be voluntary; and
- The 100-125 school districts with the largest number of children in poverty would apply directly to the Department of Education for the remainder of program funds.

In developing the initiative, the Administration made the following assumptions:

- Based on a recent GAO Report, states and localities (including school districts) underinvest in school infrastructure;
- The quality of school infrastructure is reflected in learning, and high quality, modern, energy-efficient schools are safer and cheaper to operate;

- The Federal Government could provide incentives for states and localities to increase investment in school rehabilitation and construction without getting involved in state and local decisions about building, repairing and financing schools; and

- Providing Federal incentives is preferable to imposing Federal regulations.

Since July, a joint Education/Treasury working group has held three public round tables, in Washington, D.C., San Francisco, and New York City. It has also met with the Council of Great City Schools in Ft. Lauderdale and the National League of Cities in Washington, D.C. Participants in these round tables included education public interest groups, state and city school officials, state and local budget staff, facility planners, state debt issuing agencies, representatives from Senator Moseley-Braun's and Representative Nita Lowey's office, and investment bankers involved in local school financing.

We learned that the local school finance systems vary across the country -- and in particular the degree of state involvement varies significantly; many school districts, particularly the most needy, will have difficulty issuing additional bonds for school construction, but may have other financing alternatives that could be leveraged with federal funds; and there is no single reason for underinvestment in school infrastructure.

PROGRAM OPTIONS

The Education Department has virtually completed the draft legislation. Based upon the information obtained in the roundtable discussions and further inter-agency discussions, the NEC principals believe that the program should continue to be focused on providing financial leverage for new construction and rehabilitation that communities will undertake largely with their own funds. However, we have also concluded while the original interest subsidy concept will work in many school districts, the program should be somewhat more flexible in how the federal funds can be leveraged. For example, purchase of bond insurance and capitalization of bond banks should be allowable purposes.

We also believe the program should incorporate a significant competitive element. Frankly, given the fact that expenditures on school construction and rehabilitation appear to have begun to increase without a federal program, it will be difficult to show that any formula-based program of this magnitude, when spread around the country, has made a real difference. Requiring localities -- and perhaps states -- to compete for some or all of the funds, will (i) generate more efficient, community-based proposals for use of the funds; (ii) make it more likely that the federal funds will indeed leverage new state and local (including private) funds for school construction; and (iii) distinguish this program from a traditional grant program, for which we believe there is little enthusiasm, given budgetary constraints and political constraints relating to local control. At the same time, we believe all large high-poverty school districts should be able to receive some funds, if they can demonstrate the funds will leverage new construction or rehabilitation. The Department of Education also believes all states should receive some funds.

We therefore propose that the program be structured as follows:

- 50% of the funds will be designated for states and 50% for the 100 school districts with the largest number of children in poverty. (The 100 districts have 32.8% of children in poverty, so a 50-50 split provides significantly more per poor child to the 100 districts than to the states.)
- Of the total of $2.5 billion designated for the 100 districts, $750 million would be placed in a bonus pool, to be awarded by the Department of Education to the 20 to 30 districts whose proposals show the greatest need and demonstrate the greatest ability to use federal funds to leverage new rehabilitation and construction funds from state, local and private sources to build or reconstruct safe, accessible, efficient schools that serve children in communities most in need. The remaining $1.75 billion would be made available to the 100 districts on the basis of the Title 1 allocations, but to get the money, the districts would have to demonstrate that the funds would be used to leverage other funds for new construction or rehabilitation.

There are two options for dealing with the $2.5 billion designated for the states (in all cases, states could choose to provide some of their funds to the 100 largest districts):

- Distribute all the money by a formula based on Title 1 allocations, although to get the money the states would have to demonstrate that they had a program to use the federal money to leverage other funds -- at the state or local level or both -- to increase school construction or rehabilitation beyond the pre-program level.; and
- Distribute most of the money by formula based on the Title 1 allocations, but set aside a bonus pool of approximately $750 million to be distributed on the basis of the Department of Education's determination of which state programs were most effective in leveraging the federal funds for new construction or rehabilitation for the most needy students outside of the 100 districts;

Secretary Riley opposes any sort of state competition because it would generate significant opposition to the program as unduly interfering in state and local matters. Moreover, he believes a competition would put a significant administrative burden on the states and the Department of Education, that would not be cost-efficient, given the size of the bonus pool. However, Secretary Riley thinks the bonus pool is an acceptable option if needed to assist in making clear the leveraged nature of the program. Secretary Rubin thinks a competitive program is better as a matter of policy, but acquieses in Secretary Riley's political and administrative judgment. Others at the Treasury Department are deeply concerned that this program, even with its competitive design, will be viewed as simply a grant program that will not generate incremental spending.

I understand that risk, particularly since it will be impossible to provide mathematical proof that this program, by itself, actually has resulted in incremental spending that would not have occurred otherwise. However, I also believe that, by challenging states and localities, though the bonus pools, to demonstrate how they will leverage the limited federal funds to generate a greater quanitity of new spending for construction and rehabilitation, we will be able to demonstrate the incremental impact of the program on an anecdotal, but wide-spread, basis. I therefore recommend the bonus pool option.

CONCLUSION

We are poised to complete work on a well-constructed program to jump start school construction and rehabilitation through leverage of federal funds with state, local and private money. Our consultations have led us toward a more flexible program that can be beneficial to a wider range of school districts. If you approve the recommendations in this memo, we will be prepared to complete drafting quickly and start vetting on the Hill.

DECISION

_____ Complete drafting of program with state share being distributed by formula

_____ Complete drafting of program with state bonus pool

_____ See me for further discussions

Copied
B Reed
G Sperling
C Bowning
COS

THE PRESIDENT HAS SEEN
3-10-97

COS
Sperling

Am believing / don't have strong ambitions w/ this bill (much Riley's) govs support will make it easier to get to pass (anything) — tho probably lesser — go w/ Riley's position (formula) 1/10
BC

THE WHITE HOUSE

WASHINGTON

March 6, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN TTS
HELEN HOWELL Helen

SUBJECT: NEC decision memo on school construction initiative.

The attached Sperling memo outlines two options for dealing with the funds designated for states in your school construction initiative. The draft legislation is almost complete. Education and the NEC propose that 50% of funds be designated for the 100 school districts with the most children in poverty, and 50% for the states. Education and the NEC have agreed on the program's structure with regard to the funds for the school districts. However, there is some disagreement on whether or not to allocate a portion of the funding to states on a competitive basis, with the best state programs getting the most funds. Gene seeks a decision from you on that issue.

Background. The goal of the initiative you announced in July 1996 was to spend \$5 billion over four years to spur \$20 billion in school construction spending by subsidizing up to 50% of the interest on state or local school construction bonds, based on need. Since July, a joint Education/Treasury working group has held round tables with education groups, state and city school officials, state and local budget staff, facility planners, and investment bankers involved in local school financing. They learned that: there is no single reason for underinvestment in school infrastructure; local school finance systems vary greatly; and many needy school districts will have difficulty issuing additional bonds for school construction, but may have other financing alternatives. As a result, Education and the NEC propose that the program be more flexible in how the federal funds can be leveraged.

School districts' share. In the draft legislation, \$750 million of the \$2.5 billion designated for the school districts would be placed in a bonus pool to be awarded to the 20 or 30 districts whose proposals show the greatest need and ability to use federal funds to leverage new rehabilitation and construction funds from state, local and private sources. The remaining \$1.75 billion would be made available to the 100 districts on the basis of Title 1 allocations, but to get the money, districts would have to demonstrate that the funds would be used to leverage other funds.

Options for dealing with designated state funds. There are two options for dealing with the \$2.5 billion designated for the states: *1)* distribute all the money by a formula based on Title 1 allocations (although to get the money, states would have to demonstrate that they had a program to use the federal money to leverage other funds); or *2)* distribute most of the money by formula based on the Title 1 allocations, but set aside a bonus pool of approximately \$750 million to be distributed based on Education's determination of which state programs are most effective in leveraging the federal funds to benefit the most needy students outside the 100 districts.

Sec. Riley opposes state competition (*option 2*) because it would generate opposition to the program for unduly interfering with state and local matters, and because it would put an administrative burden on the states and the Department of Education that would not be cost-efficient. Sec. Rubin thinks a competitive program (*option 2*) is better as a matter of policy and Gene agrees. Although some at Treasury are concerned that, even with a competitive design, this program will be viewed as a grant program that will not generate incremental spending, Gene believes that by challenging states and localities through the bonus pools to demonstrate how they will leverage the limited federal funds, we will be able to demonstrate the impact of the program on an anecdotal and widespread basis.

___ State share distributed by formula only ___ Include state bonus pool ___ Discuss

THE WHITE HOUSE

WASHINGTON

February 26, 1997

MEMORANDUM FOR **THE PRESIDENT**

FROM: **GENE SPERLING**

SUBJECT: **School Construction Initiative**

BACKGROUND

On July 11, 1996, you announced an initiative designed to help local communities and states rebuild the nation's schools. The goal was to spend $5 billion over four years to spur $20 billion in school construction spending. Since the announcement, an NEC/OMB/Education/Treasury team has been gathering further information, refining the program and drafting legislation.

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In developing the initiative, the Administration made the following assumptions:

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We learned that the local school finance systems vary across the country -- and in particular the degree of state involvement varies significantly; many school districts, particularly the most needy, will have difficulty issuing additional bonds for school construction, but may have other financing alternatives that could be leveraged with federal funds; and there is no single reason for underinvestment in school infrastructure.

PROGRAM OPTIONS

The Education Department has virtually completed the draft legislation. Based upon the information obtained in the roundtable discussions and further inter-agency discussions, the NEC principals believe that the program should continue to be focused on providing financial leverage for new construction and rehabilitation that communities will undertake largely with their own funds. However, we have also concluded while the original interest subsidy concept will work in many school districts, the program should be somewhat more flexible in how the federal funds can be leveraged. For example, purchase of bond insurance and capitalization of bond banks should be allowable purposes.

We also believe the program should incorporate a significant competitive element. Frankly, given the fact that expenditures on school construction and rehabilitation appear to have begun to increase without a federal program, it will be difficult to show that any formula-based program of this magnitude, when spread around the country, has made a real difference. Requiring localities -- and perhaps states -- to compete for some or all of the funds, will (i) generate more efficient, community-based proposals for use of the funds; (ii) make it more likely that the federal funds will indeed leverage **new** state and local (including private) funds for school construction; and (iii) distinguish this program from a traditional grant program, for which we believe there is little enthusiasm, given budgetary constraints and political constraints relating to local control. At the same time, we believe all large high-poverty school districts should be able to receive some funds, if they can demonstrate the funds will leverage new construction or rehabilitation. The Department of Education also believes all states should receive some funds.

We therefore propose that the program be structured as follows:

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- Of the total of $2.5 billion designated for the 100 districts, $750 million would be placed in a bonus pool, to be awarded by the Department of Education to the 20 to 30 districts whose proposals show the greatest need and demonstrate the greatest ability to use federal funds to leverage new rehabilitation and construction funds from state, local and private sources to build or reconstruct safe, accessible, efficient schools that serve children in communities most in need. The remaining $1.75 billion would be made available to the 100 districts on the basis of the Title 1 allocations, but to get the money, the districts would have to demonstrate that the funds would be used to leverage other funds for new construction or rehabilitation.

There are two options for dealing with the $2.5 billion designated for the states (in all cases, states could choose to provide some of their funds to the 100 largest districts):

- Distribute all the money by a formula based on Title 1 allocations, although to get the money the states would have to demonstrate that they had a program to use the federal money to leverage other funds -- at the state or local level or both -- to increase school construction or rehabilitation beyond the pre-program level.; and
- Distribute most of the money by formula based on the Title 1 allocations, but set aside a bonus pool of approximately $750 million to be distributed on the basis of the Department of Education's determination of which state programs were most effective in leveraging the federal funds for new construction or rehabilitation for the most needy students outside of the 100 districts;

Secretary Riley opposes any sort of state competition because it would generate significant opposition to the program as unduly interfering in state and local matters. Moreover, he believes a competition would put a significant administrative burden on the states and the Department of Education, that would not be cost-efficient, given the size of the bonus pool. However, Secretary Riley thinks the bonus pool is an acceptable option if needed to assist in making clear the leveraged nature of the program. Secretary Rubin thinks a competitive program is better as a matter of policy, but acquieses in Secretary Riley's political and administrative judgment. Others at the Treasury Department are deeply concerned that this program, even with its competitive design, will be viewed as simply a grant program that will not generate incremental spending.

I understand that risk, particularly since it will be impossible to provide mathematical proof that this program, by itself, actually has resulted in incremental spending that would not have occurred otherwise. However, I also believe that, by challenging states and localities, though the bonus pools, to demonstrate how they will leverage the limited federal funds to generate a greater quanitity of new spending for construction and rehabilitation, we will be able to demonstrate the incremental impact of the program on an anecdotal, but wide-spread, basis. I therefore recommend the bonus pool option.

CONCLUSION

We are poised to complete work on a well-constructed program to jump start school construction and rehabilitation through leverage of federal funds with state, local and private money. Our consultations have led us toward a more flexible program that can be beneficial to a wider range of school districts. If you approve the recommendations in this memo, we will be prepared to complete drafting quickly and start vetting on the Hill.

DECISION

_____ Complete drafting of program with state share being distributed by formula

_____ Complete drafting of program with state bonus pool

_____ See me for further discussions

MEMORANDUM

To: Gene Sperling
From: Bob Shireman
Date: September 17, 1997
Subject: **Daschle-Gephardt School Construction**

At a meeting this evening with Bruce Reed, Ann Lewis, Mickey Ibarra, and others, it was suggested that our embracing the new school construction proposal might be a part of a strategy for winning over the CBC on the testing issue. In addition, the VP's office has expressed interest in an event where he could announce the Administration's support for the bill.

You may want to raise this at the senior staff meeting, if Bruce doesn't.

Raines apparently has a memo about Daschle-Gephardt on his desk, but has not taken any action.

There are two issues: *Whether* to support Daschle-Gephardt, and *when*. On the first question, I think the answer is that we should absolutely support it (with only minor modifications). Given our continued commitment on the issue, we should take the opportunity to be praised for a $1.9 billion proposal rather than pilloried for moving away from our $5 billion plan. On timing, however, we need to consider how an endorsement might affect our negotiations on the appropriations bills over the next few weeks.

<u>Overview of Daschle-Gephardt</u>

This $1.9 billion proposal is based on the Administration's proposal. One-third of it is competitive to the 100 school districts with the largest number of poor children and 25 other districts with extraordinary needs. The other two-thirds is distributed by formula to States, which would provide it competitively to school districts.

The amount of $1.9 billion is based on the savings from the offset that is being used -- closing a tax loophole (restructuring the foreign tax credit carryover rules). The Administration is on record supporting closing that tax loophole.

This bill could come up as a second-degree to the Coverdell amendment, whenever the next revenue bill moves in the Senate. The Superfund legislation is one possibility.

December 6, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
BOB SHIREMAN

SUBJECT: School Construction

You have publicly made it clear on a number of occasions -- most recently in Chicago with Sen. Moseley-Braun -- that you will continue to fight to get Congress to address the problem of the crumbling school infrastructure. There are two issues on school construction that need to be considered in the context of FY 1999 Budget decisions: size and design (spending versus tax). This memorandum briefly describes some of the policy and political dynamics around the question of size, then lays out the pros and cons on the design issue.

Size

As with all of the new initiatives, we are not asking you decide at this time the amount of money that should be dedicated to the School Construction initiative. You should keep in mind, however, that because of the history of this proposal, its size in the FY 1999 Budget will be a substantive and political decision that will draw a great deal of attention.

The OMB passback funds the School Construction initiative at $1.9 billion -- down from the $5 billion that was proposed last year. That matches a Daschle-Gephardt proposal developed in the late summer as a last-ditch effort to get a down payment on the school construction issue. The amount was based on the size of the offset they were able to agree on (closing a tax loophole). There is no question that an initiative of that size would *not* be met warmly by supporters of a Federal investment in this area.

Pressures for us to re-propose a school construction initiative of *at least* $5 billion are coming from a number of quarters:

- **Defining issue for Democrats.** Democrats see this as a popular initiative that sets them clearly apart from Republicans. Some have argued that the funding should be increased *above* $5 billion in order to provide more help to suburbs.

- **Urban needs**. In the context of negotiations over the voluntary national tests, School Construction came up a number of times with the Black Caucus as one item that would demonstrate the Administration's commitment to the needs of urban schools.

- Class size. Some have suggested that a school construction initiative could be tied to the idea of smaller class sizes.

Obviously, a funding decision needs to be made in the context of the whole budget, taking into consideration proposals for child care, smaller class size, health care, etc. If we are constrained by funds available in the five year budget window, you should keep in mind that one way to accommodate school construction might be to stretch it over a longer period (such as $8 billion over 10 years, with $3.5 billion in the first five years).

Design

You need to decide whether we should continue to propose our School Construction initiative as a mandatory spending proposal or shift it to a tax credit.

Spending proposal. The bill you proposed, the Partnership to Rebuild America's Schools, provided a one-time appropriation of $5 billion for grants to States and localities to pay for up to one-half the interest cost of repayment of school construction bonds (or an equivalent amount in cases where an alternative financing mechanism is used). One-half of the funding was reserved for the 100 largest school districts. We estimated that the $5 billion would leverage $20 billion in new construction/renovation over four years.

Pros

- The Administration bill in the House gained 116 cosponsors, including ___ Republicans. A letter signed by 112 of them urges you to include the same, $5 billion proposal in the FY 1999 Budget.

- The bill was designed to spur additional State and local effort (through a competitive portion of the funds) and to leverage the Federal funds. It is more difficult to design a tax credit that accomplishes those goals.

- This approach is more efficient at addressing our specific goals than a tax credit (tax incentives associated with bonds inevitably have some inefficiencies associated with them).

- The bill is flexible, allowing for creative funding mechanisms such as lease-buybacks, helping districts that are not able to float additional bonds.

Cons

- To propose $5 billion or more, we probably will need to rely on closing tax loopholes as the offset, creating a "tax-and-spend" scenario.

- With a tax-side offset, the spending proposal and the offset would have to move through different committees, making the plan more difficult to achieve legislatively -- unless there is a reconciliation bill.

- While the education groups prefer the spending program in the abstract, they would prefer a tax-side approach *if it means more money could be dedicated to the purpose.*

Tax proposal. As part of the Taxpayer Relief Act of 1997, Congress enacted a tax credit proposal by Rep. Rangel that *includes* school renovation (but not construction). The provision allows State and local governments to issue bonds totaling $800 million over two years. The Federal government essentially covers the interest on the bonds through a tax credit, providing the schools with an interest-free form of financing. These bonds can be used to cover certain costs of "academies" that link businesses with the schools to develop a curriculum that is employment-oriented (the description is not unlike your School-to-Work program). The bond proceeds can be used for a variety of expenses: rehabilitation, repairs, technology, equipment, curriculum development, and teacher training.

While supporters of school construction were pleased to see Congress ratify a proposal that included school renovation, they do not see the Rangel plan as a sufficient approach for two reasons: (1) its narrow focus on these school-business academies, and (2) the broad use of funds.

This bond/tax credit design could be expanded to focus more squarely on school construction and renovation, and beyond the academies in the Rangel provision. For example, Rep. Loretta Sanchez introduced legislation in October that would use the bond mechanism to support school construction in overcrowded districts. We would not need to provide detailed specifics in the budget. We could simply say that the bond/tax credit would be extended and expanded to assist school districts with their school construction and renovation needs. Then we could work with Mr. Rangel and others on the details.

Pros

- We can more easily propose a larger initiative on the tax side.

- A tax-side initiative will be revenue-neutral, and both the program and the offset would be handled by the same committees in Congress.

- The Senate sponsor of our School Construction legislation -- Sen. Moseley-Braun

-- is on the Finance Committee and would support the idea of a tax-side approach that she could push there.

- We might be able to develop a proposal that would have the strong support of the ranking member in the House (Mr. Rangel).

- The contentious issue of Davis-Bacon, which has caused some problems even with some members of the pro-school construction coalition, has not been an issue on the tax side.

Cons

- The bond/tax-credit approach is unprecedented, so we do not yet know how well it will work.

- The bells and whistles that we built into our School Construction proposal -- leveraging, rewarding State investments, etc. -- would be more difficult if not impossible to design and enforce in a tax-side approach.

- The House sponsor of our School Construction legislation -- Rep. Lowey -- prefers the spending bill that we proposed this year.

- Rep. Rangel is very committed to his design, and may not be willing to make the changes that we would want to steer this toward school construction and renovation and away from his "academies" approach. There is a chance we would have to part ways with him, or accept something that we do not like and does not satisfy the constituency groups.

Views and Recommendations

Treasury strongly supports a spending-side strategy. The tax credit approach is awkward and inefficient. While Treasury is making every effort to implement the Rangel provision effectively, it is an unprecedented approach -- as would be any tax-side approach to subsidizing school construction.

Secretary Riley also prefers the direct spending approach.

Secretary Herman heard from the Congressional Black Caucus on this issue in her efforts on Fast Track. She would prefer the tax side because it would allow Sen. Moseley-Braun and Rep. Rangel to champion the legislation.

Sperling and Reed would ideally prefer to stick with the your carefully-designed spending proposal, but believe that we should be willing to propose a revenue-neutral $7 billion, 10-year approach on the tax side if necessary to make room for child care, health care or other proposals.

Judy Winston considers either approach to be consistent with the President's Initiative on Race, and with the agenda for the December 17 Advisory Board meeting which will include a discussion of racial disparities in educational resources including facilities.

THE WHITE HOUSE

WASHINGTON

February 20, 1998

2-23-98

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

RE: NEC WEEKLY REPORT

cc: ERSKINE BOWLES

Employability Conference in London: This weekend, I will be attending the G-7 Ministerial on Employability along with Secretaries Rubin and Herman. While the Asia crisis is expected to be topic number one, we expect the discussion to focus on the rigidities in the European labor markets and the attempts of the U.S. and England to push other countries toward more flexible market policies. We will stress our increases in the EITC and minimum wage and other ways we have increased incomes while still keeping our labor markets flexible.

Electricity Restructuring: The NEC has worked closely with the CEQ, EPA, and DOE this week to finalize options on electricity restructuring. An options memorandum is being submitted to you shortly.

Student Loan Interest Rate: Under current law, the interest rate on student loans is scheduled to go down by roughly one full percentage point on July 1, as a result of changes made in the 1993 budget deal. Banks and Sallie Mae have been warning for the past year that the loans are not profitable at the lower rate (partly because it uses a longer-term instrument to set the rate). They have called this a "ticking time bomb" that will threaten student access to loans. At my request, Treasury has been analyzing the lenders' claims, and will soon be ready to issue a report.

Treasury's analysis finds that the July 1 situation is untenable for banks over the long term; *however*, Treasury also finds that giving students an *equivalent* rate (but based on a short-term instrument) is inside the range of adequate lender returns. We are looking into whether we can hold the report until a day next week when you or the Vice President could make a brief comment that lays out that position. (The Hill and groups are anxious to see the report, so we can't hold it very long).

Good if you can give a summary of [illegible] on [illegible] calls etc

2-23-98

School Construction: The Rangel legislation will be ready for Rep. Rangel to introduce next week. We are working closely with him so that it reflects the proposal that you laid out in the budget. He has kindly offered to add Rep. Lowey as his chief cosponsor, since she led the effort for our bill last year. In the Senate, we expect the bill to be introduced by Sen. Moseley-Braun, who is on the Finance Committee. We may ask him to introduce the legislation on a day when you would be able to make a statement. We are working on bringing in a number of organizations to broaden the groups who are endorsing the initiative.

Educational Technology: This week, Tom Kalil, on our staff and staff from the Vice President's office briefed over 30 Congressional staff (both Democrats and Republicans) on your FY 1999 educational technology investments and the "e-rate." Congress seems to be supportive of your focus on making sure that teachers can use technology effectively in the classroom. Over 15,000 applications for the "e-rate" -- which will provide discounts of 20-90 percent to connect schools and libraries to the Internet -- have been filed from every state in the Nation. We want to continue to strengthen Congressional support for the "e-rate" since long distance companies may add a line item to phone bills to pay for it.

Cox-Wyden Internet Tax Freedom Act: Next week, you may be announcing your support for this legislation, which would put a 5-year moratorium on new taxes that discriminate against the Internet and electronic commerce. A possible venue for this announcement could be at a conference in California organized by Robertson Stephens on information technology -- which attracts over 3,000 high-tech CEOs, venture capitalists, and financial analysts.

Japan Economic Package: The LDP today announced economic measures that do not include any additional fiscal stimulus. The package consists primarily of financial stabilization and deregulation measures of limited value. We are stating publicly that it is critical for Japan to take additional policy steps to strengthen domestic demand, and that demand-led growth in Japan would be an important contribution towards the economic recovery of other Asian nations. Bob Rubin will urge early, significant fiscal action in his meetings with the new Japanese Finance Minister at the London G-7 Finance Ministerial. I will reinforce that message in my meetings in London, as well. Our target is a possible supplemental stimulus package that Hashimoto may announce after the passage of his 98 budget in late March or early April.

Looking Ahead on the IRS: Next week, Treasury and the IRS will begin the launch of our first Citizen Advocacy Panels. In total, there will be 33 citizen panels to provide taxpayers with an independent source of help to resolve their problems and to monitor the practices of IRS offices. Bob Rubin will issue a written statement to generate print coverage and the IRS will place a notice in the Federal Register seeking members for the first panel, which will be in Florida.

On March 7th, the IRS will open its offices on Saturday for the first time during filing season. The Vice President may conduct an event around this first Saturday of "problem prevention days," in conjunction with the release of the final NPR report on IRS customer service. We will initiate a renewed push that week for the Senate to pass IRS reform.

Budget Response: Frank Raines and I are placing a letter to the editor in the *New York Times* in response to an op-ed this week by John Cogan, a former Republican OMB official. Cogan made several false assertions about our budget. Their main assertion we are rebutting is that we spend some of the surplus. But we point out that over 5 years, we are actually adding $800 million in budget savings to the surplus.

Kelly Air Force Base: Boeing today announced plans to establish a major center for the maintenance of large aircraft at Kelly Air Force Base in San Antonio. Boeing expects to hire 850 Kelly workers over the first 18 months of operation, and as many as 1,500 workers eventually. Today's announcement came after weeks of negotiation between Boeing and the community, and reflected considerable effort by DoD and other federal agencies. At the NEC's request, Phil Singerman, the head of Commerce's Economic Development Administration, participated in the event and the Vice President and the Acting Secretary of the Air Force both issued statements.

Reg Reform Legislation: Once again, there is interest on the Hill in regulatory reform legislation. Senators Levin and Thompson have coauthored a bill that is somewhat responsive to many of our concerns with earlier reg reform efforts, but there are important issues that are still unresolved to the agencies' satisfaction. Sally Katzen convened a deputies-level meeting this week to sort out the substance and the politics, and we will have a recommendation for an Administration position shortly. We have prepared Qs and As for you in case you are asked about this by the Governors this weekend.