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State Credit Enhancement Programs Promote Capital Investment in Low-Income Districts.

Public school districts in the United States spend, on average, 9.5% of their budget, or $1,440 per student, on capital projects, which includes spending on school building construction, equipment purchases, and bus acquisition. Notwithstanding the magnitude of these costs, schools should probably be spending more on capital projects, since over half of all public school districts are in need of physical improvement in their schools. Moreover, per-student capital spending has been historically higher in the highest-income districts compared to the lowest-income districts (in the average state), though the gap has narrowed since 2008.

Is there anything that can be done to reduce these historical gaps in capital spending? This is the subject of my new working paper, where I explore the role of access to credit as a leading factor in these spending patterns. In the paper, I provide the first nationwide, comprehensive evaluation of state credit enhancement of school district debt

ACCESS TO CREDIT AND ITS EQUITY IMPLICATIONS

The average annual spending figures mask the fact that capital outlays are “lumpy”: districts pay a large upfront cost to acquire the infrastructure and then use it for many years to come. To pay for the upfront cost, districts often borrow money from investors by issuing bonds on the municipal bond market. The interest rate on a bond varies across districts and bonds. To help market the bond, a district may hire independent credit rating agencies to assess the creditworthiness of the bond and to assign an underlying credit rating.

Continue reading.

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