School District Borrowing and Capital Spending: A Discussion

Christine Cuny
NYU Stern
RESEARCH OBJECTIVES

State Enhancement → Borrowing Costs → Capital Spending → Test Scores
Findings

- State Enhancement
- Borrowing Costs (↓)
- Capital Spending (↑)
- Especially for High Poverty Districts
- Test Scores (↔)

Especially for High Poverty Districts
What Do We Already Know?

• State credit enhancement lowers interest rates

• Enhanced rates are…
  – Higher than equal natural ratings (Hsueh & Kidwell, 1988)
  – Lower than private insurance (Bland, 1987)

• Interest savings are…
  – Higher when the state program has a higher rating
  – Higher when the local issuer has a lower rating (Hsueh & Kidwell, 1988)
Potential Contribution

State Enhancement \(\downarrow\) Borrowing Costs \(\uparrow\) Capital Spending \(\leftrightarrow\) Test Scores

Especially for High Poverty Districts
Potential Contribution

State Enhancement

↑ Capital Spending

Especially for High Poverty Districts
COMMENTS/SUGGESTIONS

1. Bolster contribution by benchmarking increased capital spending against:
   • Other Enhancement (Insurance)
   • Other State Aid/Direct Funding

2. Mechanism
   • Lower Interest Costs
   • State Preferences
Benchmark 1: Private Insurance
Enhancement Trends (Figure 2)
HETEROGENEOUS ACROSS STATES: TEXAS ENHANCEMENT TRENDS
Benchmark 2: State Aid
## Other Sources of Aid (Table 2)

<table>
<thead>
<tr>
<th></th>
<th>Never Enhanced</th>
<th>Ever Enhanced</th>
<th>Rating Low</th>
<th>Rating Medium</th>
<th>Rating High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Transfer Revenue</td>
<td>0.65</td>
<td>0.69</td>
<td>0.73</td>
<td>0.54</td>
<td>0.47</td>
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<tr>
<td>State Transfer Revenue</td>
<td>5.61</td>
<td>6.19</td>
<td>6.46</td>
<td>5.34</td>
<td>4.31</td>
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<tr>
<td>Own-source Revenue</td>
<td>5.65</td>
<td>4.71</td>
<td>4.37</td>
<td>6.57</td>
<td>8.49</td>
</tr>
</tbody>
</table>
Paper’s Preferred Mechanism

- State Enhancement
- Borrowing Costs
- Capital Spending
Capital Spending & State Enhancement are Jointly Determined by State Preferences
Solutions

• Explore changes in State Enhancement
  – e.g., Texas allowed charter schools to receive enhancement starting in 2011

• Allow design to incorporate changes in borrowing costs
  – Path Analysis
IN CONCLUSION

Interesting and important topic

Enhance contribution by focusing on capital spending and
1. Comparing Enhancement to Alternatives
2. Identifying the Mechanism
GOOD LUCK!