

The Economic and Fiscal Impacts Of Texas School District Capital Spending: Opportunities and Challenges under Current 50-Cent Tax Rate Cap



Prepared for All Texas School Districts and Funded By



Prepared by:
Bernard L. Weinstein, Ph.D.*
and Terry L. Clower, Ph.D.**

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*Adjunct Professor of Business Economics, Southern Methodist University, Dallas

**Associate Professor of Economics, University of North Texas, Denton

Note: Views expressed are the authors' alone and not necessarily those of their respective universities.

EXECUTIVE SUMMARY

Public education is the largest area of public expenditure in the State of Texas. Though state funds provide a sizeable share of operating revenues, the majority of capital costs are borne by individual school districts. A separate property tax is levied by each school district for debt service costs and is subject to a cap of \$0.50 per \$100 of taxable value. New bonds may only be issued if the district can demonstrate that, prior to sale, its interest and sinking fund tax rate will not exceed 50-cents.

The 50-cent limit on debt service is presenting financial challenges to many of Texas' school districts, especially those at or near the tax cap. Eighty-three school districts currently impose rates of 40 cents or higher for debt service, and 22 of these districts are actually at the 50-cent limit. Most of the districts bumping against the cap are located in large, fast-growing metropolitan regions.

With enrollment growth projected to continue for the foreseeable future in many of the state's school districts, the need for new educational facilities will grow in tandem. Herein lies the challenge: How can Texas' school districts, many of which are at or near the debt service cap, finance these new facilities? One option is to effectively defer principal interest payments for up to 40 years, and some ISDs have chosen this mechanism to raise construction funds. But this approach can significantly reduce the district's bonding capacity well into the future while burdening future generations of taxpayers with a huge "balloon" payment.

A better approach would be for the Texas Legislature to amend the "50-cent debt test" to enable school districts to exceed the cap if a material savings can be demonstrated and it is supported by the local community. With long-term interest rates at their lowest levels in 70 years, and the construction sector hungry for new contracts in this sluggish economy, considerable cost savings can be realized by moving ahead expeditiously on facilities expansion. What's more, school construction by itself can facilitate the state's economic recovery and help lower Texas' historically high unemployment rate.

For example, between 2002 and 2009, outlays for new and renovated public school buildings topped \$41 billion. This spending created almost \$85 billion in new economic activity while supporting over 500,000 person years of employment across the state. About \$2.4 billion of state and local tax revenues collected between 2002 and 2009 can be attributed to construction spending by school districts, with about half going to the state. Future capital spending, assuming financing is available, will have an even greater economic and fiscal impact on the state. Texas' school districts plan to spend an additional \$57.5 billion on capital facilities over the coming decade. These outlays could boost the state's economy by \$94 billion, support more than 550,000 person years of employment, and produce \$2.6 billion of much-needed state and local tax receipts. Again, about half of these new tax revenues will go to the state.

I. Background

Public education constitutes the largest area of expenditure in the Texas state budget and is also the primary purpose for which local property taxes are assessed. Funding for Texas' public school districts (ISDs) comes from three basic sources: local property taxes, state monies from the Foundation School Program, and federally funded grant programs like ESEA Title I (educationally disadvantaged students) and IDEA Part B (children with disabilities). In fiscal year 2008-2009, total operational spending by Texas' 1,039 school districts exceeded \$36 billion with about 49 percent of the funding coming from the state Foundation School Program. Capital outlays in 2008-2009 totaled \$7.8 billion compared with \$3.7 billion six years earlier.

Each school district adopts two tax rates each year: one for "maintenance and operations" and another for "debt service" related to facilities construction. Under current Texas law, maintenance and operations taxes may not exceed \$1.04 per \$100 of taxable valuation without a tax ratification election. Though local voters can theoretically approve any level of spending, the actual tax rate is constrained by state law to a maximum of \$1.17. A separate tax is levied for debt service costs and is subject to a cap of \$0.50 per \$100 of taxable value. Put differently, a school district may only issue new bonds if it can prove, prior to sale, that its interest and sinking fund tax rate (debt service) will not exceed fifty cents per \$100 of taxable value.

This fifty-cent limit on debt service is now presenting financial challenges for a number of school districts, especially those at or near the cap and unable to easily fund facilities expansion. Fast-growing school districts currently account for about 42 percent of all student enrollments in the State of Texas.

At present, 83 school districts are imposing rates of 40 cents or higher for debt service, and 22 of these districts are actually at the 50 cent limit. Two hundred twelve districts are

currently at 30 cents or higher. Most of the districts bumping against the cap are located in the fast-growing metropolitan areas of Dallas-Fort Worth (41), Austin (13), and Houston (10) (see Tables 1 and 2).

Table 1
Population Projections for Dallas-Fort Worth, Houston, and Austin Metro Areas
2010-2040

Metro Area	2010	2020	2030	2040
Dallas-Fort Worth	6,606,727	8,585,596	11,269,335	14,817,002
Houston	5,979,911	7,599,748	9,504,335	11,717,086
Austin	1,712,647	2,292,737	3,030,478	3,958,933

Source: Texas State Data Center

Table 2
Texas Public School Districts Currently at \$0.50 Cap

Allen ISD	Celina ISD	Lake Worth ISD
Anna ISD	Dickinson ISD	Little Elm ISD
Aubrey ISD	Eagle Mountain-Saginaw ISD	Melissa ISD
Bishop Consolidated ISD	Elgin ISD	New Caney ISD
Blue Ridge ISD	Ennis ISD	Prosper ISD
Burleson ISD	Joaquin ISD	Royal ISD
Caddo Mills ISD	Lake Dallas ISD	Spring Hill ISD White Settlement ISD

Source: Texas Comptroller of Public Accounts, Property Tax Division. Fast growth districts highlighted in bold.

With enrollment growth projected to continue for the foreseeable future in many of the state’s school districts, the need for new educational facilities will grow in tandem. Herein lies the challenge: How can fast growth school districts, many of which are at or near the debt service cap, finance these new facilities? One option is to effectively defer principal and interest payments for up to 40 years through a vehicle such as zero coupon bonds, and some ISDs have chosen this mechanism to raise construction funds. But this approach can significantly reduce the district’s bonding capacity well into the future while burdening future generations of taxpayers with a huge “balloon” payment.

A better approach would be for the Texas Legislature to amend the “50-cent debt test” to enable school districts to exceed the cap if a material savings can be demonstrated and it is supported by the local community. With long-term interest rates at their lowest levels in 70 years, and the construction sector hungry for new contracts in this sluggish economy, considerable cost savings can be realized by moving ahead expeditiously on facilities expansion. What’s more, school construction by itself can facilitate the state’s economic recovery and help lower Texas’ historically high unemployment rate.

II. The economic and fiscal impacts of school construction

Between 2001 and 2009, Texas’ school districts spent \$41.3 billion on new facilities construction and renovations. These outlays have had a huge impact on the state’s economy, supporting tens-of-thousands of jobs and indirectly generating substantial new state and local tax revenues. Using the IMPLAN economic input-output model, we have assessed the economic and fiscal impacts of public school district capital spending over the most recent eight year period for which we have spending data. Capital outlays analyzed here include spending for land acquisition, building construction, and related equipment purchases.

The IMPLAN model, which is widely used in academic and professional research, estimates how new spending flows through a regional economy. For example, if the Denton Independent School District builds a new elementary school, it spends money for architects, engineers, site evaluators, construction contracts, insurance, equipment and furnishings, and other contractors and service providers. This is direct spending. Based on national data, the model estimates indirect spending associated with direct spending. For example, the engineering firm that conducts soil testing and designs the school building foundation hires accountants to

prepare their taxes, purchases field testing equipment, and hires a janitorial service to clean their offices. All of these activities are supported in part by the fees paid by the school district.

The IMPLAN model also estimates induced spending, which captures the economic impacts of the employees of all the directly and indirectly related firms spending a portion of their wages and salaries in the regional economy. At each stage of spending, the model accounts for spending that leaks out of the study area. For example, the testing equipment used by the engineers may not be manufactured in Texas; therefore little of that related spending is counted by the model. The model provides estimates of output (transactions), labor income including salaries, wages and benefits, employment, and revenues for state and local taxing jurisdictions.

One type of spending associated with school district capital outlays requires a slightly different approach to estimating the economic and fiscal impacts. Expenditures for land acquisition do not, aside from realtor fees and certain transaction fees, generate secondary transactions. However, the sales price does increase income for the landowner that may be spent in the regional economy. We have assumed that about 70 percent of the land acquired for new school buildings is purchased from Texas-based land owners and a portion of that income will be spent in the Texas economy for a range of goods and services.

A. Historical statewide economic and fiscal impacts from school construction

Over an eight-year period covering Fiscal Years 2002 through 2009, Texas public school districts spent \$41.3 billion for land, buildings, and equipment. For modeling accuracy, we have converted each year's expenditures into constant (inflation adjusted) 2009 dollars. In 2009 dollars, capital spending during this time period totals \$46 billion. This spending boosted economic activity in the state of Texas by \$84.7 billion, created \$26.6 billion in labor income

from salaries, wages, and benefits, and supported over 500,000 person years of employment over the study period.¹ Direct, indirect and induced spending over this eight-year period boosted state and local tax revenues by \$2.4 billion with about half going to state coffers (see Table 3).

Table 3
Economic and Fiscal Impacts of Texas Public School District Capital Spending
Fiscal Years 2002-2009

Description	Impact
Total Spending	\$ 41,346,134,000
Adjusted Spending (constant 2009 \$)	\$ 46,058,263,000
Economic Activity	\$ 84,744,671,193
Labor Income (salaries, wages, benefits)	\$ 26,615,266,087
Employment (person years of employment)*	502,229
State and Local Tax Revenues (includes fees)	\$ 2,418,552,640

* A person year of employment is one job lasting for one year.

B. Potential statewide economic and fiscal impacts from school construction

Over the next ten years, Texas' public school districts plan to spend even more for capital facilities than was the case during the past decade—assuming they are able to sell bonds and are not constrained by the 50 cent cap (see Table 4). These expenditures will be necessary to accommodate the growing number of public school students and also to repair and renovate existing buildings. Importantly, they can also help revive the state's moribund construction industry, create thousands of new jobs, and contribute substantially to state and local tax coffers.

Planned capital spending of \$57.5 billion will boost the state's economy by almost \$94 billion over a ten year period. These construction outlays will support more than 555,000 direct, indirect and induced jobs expressed as person years of employment and also generate \$2.5 billion in state and local tax revenues over the decade.

¹ A person year of employment is one job lasting for one year. If a series of projects create 10,000 person years of employment over 10 years, then the average number of jobs created is $10,000 / 10 = 1,000$ per year. Of course, the actual job count will vary widely depending on project completion status and the amount of money spent each year.

Table 4
Economic and Fiscal Impacts of Texas Public School District Capital Spending
All Districts Future Spending
(ten-year period; 2010 dollars)

Description	Impact
Total Spending	\$ 57,500,000,000
Economic Activity	\$ 93,739,512,000
Labor Income (salaries, wages, benefits)	\$ 29,440,223,000
Employment (person years of employment)*	555,540
State and Local Tax Revenues (includes fees)	\$ 2,539,885,000

* A person year of employment is one job lasting for one year.

Eighty-three school districts currently levying a tax rate over 40 cents will account for a disproportionate share of these outlays, assuming they are able to move ahead with their capital programs (see Table 5). Should these districts be unable to issue bonds because of the tax cap, Texas will forfeit more than \$31 billion of economic activity and \$850 million of tax revenue over the next decade. About 18,600 potential jobs will be foregone.

Table 5
Economic and Fiscal Impacts of Texas Public School District Capital Spending
83 Districts Over \$0.40 Current Rate
(ten-year period; 2010 dollars)

Description	Impact
Total Spending	\$ 17,055,000,000
Economic Activity	\$ 31,380,595,000
Labor Income (salaries, wages, benefits)	\$ 9,855,520,500
Employment (person years of employment)*	185,970
State and Local Tax Revenues (includes fees)	\$ 850,261,100

* A person year of employment is one job lasting for one year.

III. Case studies

In what follows, we look at the *local* economic and fiscal impacts of past and planned capital spending by four fast-growing Texas school districts: Denton, Fort Bend, Hutto and Mansfield. All but Fort Bend are currently imposing an interest and sinking fund tax rate of 40

cents or higher. As the data indicate, school construction can be a powerful driver of local economic activity.

A. Denton ISD capital spending impacts: past and potential

Over the FY2002-2009 period, the Denton ISD spent a little over \$429 million on capital outlays, or about \$476 million in inflation-adjusted dollars. This spending supported more than \$500 million in economic activity in Denton County boosting total labor income by \$159 million. Capital spending by the Denton ISD supported almost 3,000 person years of employment during this eight year period (see Table 6). Tax receipts were enhanced by more than \$9.5 million.

Table 6
Economic and Fiscal Impacts of Denton ISD Capital Spending on Denton County
Fiscal Years 2002-2009

Description	Impact
Total Spending	\$ 429,048,000
Adjusted Spending (constant 2009 \$)	\$ 476,589,000
Economic Activity	\$ 501,837,000
Labor Income (salaries, wages, benefits)	\$ 159,348,000
Employment (person years of employment)*	2,960
State and Local Tax Revenues (includes fees)	\$ 9,526,000

* A person year of employment is one job lasting for one year.

Assuming the Denton ISD is not precluded from issuing construction bonds, over the next ten years it plans to spend \$400 million on new and renovated facilities. This spending will have a total countywide economic impact of about \$421 million, support 2,480 person years of employment, and generate \$7.6 million in new state and local tax receipts (see Table 7).

Table 7
Potential Economic and Fiscal Impacts of Denton ISD Capital Spending on Denton County
(ten-year period; 2010 dollars)

Description	Impact
Total Spending	\$ 400,000,000
Economic Activity	\$ 421,190,000
Labor Income (salaries, wages, benefits)	\$ 133,740,000
Employment (person years of employment)*	2,480
State and Local Tax Revenues (includes fees)	\$ 7,572,000

* A person year of employment is one job lasting for one year.

B. Fort Bend ISD capital spending impacts: past and potential

The fast-growing Fort Bend ISD near Houston spent more than one-half billion dollars on school construction between 2002 and 2009 (see Table 8). This spending boosted the local economy by more than \$947 million and supported over 5,200 person years of employment while increasing state and local tax collections by \$22.6 million.

Table 8
Economic and Fiscal Impacts of Ft. Bend ISD Capital Spending on the Regional Economy*
Fiscal Years 2002-2009

Description	Impact
Total Spending	\$ 513,192,000
Adjusted Spending (constant 2009 \$)	\$ 590,584,000
Economic Activity	\$ 947,619,000
Labor Income (salaries, wages, benefits)	\$ 308,677,000
Employment (person years of employment)**	5,240
State and Local Tax Revenues (includes fees)	\$ 22,628,000

* Ft. Bend and Harris counties. ** A person year of employment is one job lasting for one year.

With enrollments projected to increase rapidly during the next decade, the Fort Bend ISD foresees the need to spend another one-half billion on facilities expansion. This expenditure will generate more than \$800 million in new economic activity while over 4,500 person years of employment and producing almost \$21 million in new state and local tax receipts (see Table 9).

Table 9
Potential Economic and Fiscal Impacts of Fort Bend ISD Capital Spending
On the Regional Economy*
(ten-year period; 2010 dollars)

Description	Impact
Total Spending	\$ 500,000,000
Economic Activity	\$ 817,111,000
Labor Income (salaries, wages, benefits)	\$ 265,926,000
Employment (person years of employment)**	4,540
State and Local Tax Revenues (includes fees)	\$ 20,949,000

* Fort Bend and Harris Counties. ** A person year of employment is one job lasting for one year.

C. Hutto ISD capital spending impacts: past and potential

Located in the greater Austin-Georgetown metropolitan area, the Hutto ISD is growing rapidly. Between 2002 and 2009, the district spent \$154 million on facilities expansion. Local economic activity was boosted by \$173 million supporting almost 1,000 person years of employment, and \$2.4 million of tax revenue could be attributed to this spending (see Table 10).

Table 10
Economic and Fiscal Impacts of Hutto ISD Capital Spending on Williamson County
Fiscal Years 2002-2009

Description	Impact
Total Spending	\$ 154,457,000
Adjusted Spending (constant 2009 \$)	\$ 184,405,000
Economic Activity	\$ 173,614,000
Labor Income (salaries, wages, benefits)	\$ 52,529,000
Employment (person years of employment)*	984
State and Local Tax Revenues (includes fees)	\$ 2,419,000

* A person year of employment is one job lasting for one year.

Anticipated facilities spending for the next decade is projected at \$125 million, assuming financing is available. These outlays will boost local economic activity by \$118.5 million, create about 670 person years of employment, and produce new tax revenues of \$1.6 million (see Table 11).

Table 11
Potential Economic and Fiscal Impacts of Hutto ISD Capital Spending
On Williamson County
(ten-year period; 2010 dollars)

Description	Impact
Total Spending	\$ 125,000,000
Economic Activity	\$ 118,500,000
Labor Income (salaries, wages, benefits)	\$ 35,851,000
Employment (person years of employment)*	670
State and Local Tax Revenues (includes fees)	\$ 1,607,000

* A person year of employment is one job lasting for one year.

D. Mansfield ISD capital spending impacts: past and potential

Located in the Fort-Worth/Arlington metropolitan division, one of the fastest-growing large urban areas of the nation, the Mansfield ISD spent almost one-half billion dollars on facilities construction between 2002 and 2009. Not surprisingly, servicing this addition debt has pushed the district's interest and sinking fund tax rate to 41 cents.

The Mansfield ISD's construction spending has been a significant contributor to the economy of Tarrant and Johnson counties (see Table 12). Total economic activity was increased by \$725 million, 4,600 person years of employment were supported, and state and local taxes and fees were boosted by \$18.3 million.

Table 12
Economic and Fiscal Impacts of Mansfield ISD Capital Spending
On the Regional Economy*
Fiscal Years 2002-2009

Description	Impact
Total Spending	\$ 484,784,000
Adjusted Spending (constant 2009 \$)	\$ 515,983,000
Economic Activity	\$ 724,992,000
Labor Income (salaries, wages, benefits)	\$ 231,219,000
Employment (person years of employment)**	4,624
State and Local Tax Revenues (includes fees)	\$ 18,338,000

* Tarrant and Johnson counties. ** A person year of employment is one job lasting for one year.

Over the next decade, construction on new facilities will abate somewhat but still amount to \$140 million (see Table 13). Expenditures at this level will create \$202 million of new economic activity in the region, support almost 1,300 person years of employment, and generate \$5 million of new state and local tax revenues.

Table 13
Potential Economic and Fiscal Impacts of Mansfield ISD Capital Spending
On the Regional Economy*
(ten-year period; 2010 dollars)

Description	Impact
Total Spending	\$ 140,000,000
Economic Activity	\$ 201,687,000
Labor Income (salaries, wages, benefits)	\$ 64,306,000
Employment (person years of employment)**	1,291
State and Local Tax Revenues (includes fees)	\$ 5,036,000

* Tarrant and Johnson Counties. ** A person year of employment is one job lasting for one year.

IV. Summary and conclusions

As the previous discussion has emphasized, school construction is big business in Texas. Between 2002 and 2009, outlays for new and renovated public school buildings topped \$41 billion. This spending created almost \$85 billion in new economic activity while supporting over 500,000 person years of employment across the state. About \$2.4 billion of state and local tax revenues collected between 2002 and 2009 can be attributed to construction spending by school districts. Importantly, 83 of Texas' 1,039 school districts accounted for 32 percent of all capital spending.

Texas' school districts plan to spend an additional \$57.5 billion on capital facilities over the coming decade. These outlays could boost the state's economy by \$94 billion, support more than 550,000 person years of employment, and produce \$2.6 billion of much-needed state and

local tax receipts. But with many fast-growing school districts bumping against the 50-cent property tax cap for debt service, a large portion of these expenditures may not materialize.

The Texas Legislature should amend the “50-cent debt test” to allow additional facilities spending where necessary. With long-term interest rates at their lowest levels in 70 years, and the construction industry hungry for new contracts in this sluggish economy, considerable cost savings can be realized by moving ahead expeditiously on facilities expansion. Finally, school construction by itself can help accelerate the state’s economic recovery and lower Texas’ historically high unemployment rate.