Suppose There Were a "World Bank" for American Education?

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About 120 nations can borrow from an international bank for the purposes of financing domestic educational improvement. The United States is a donor to this bank, but by virtue of its economic development, it cannot borrow. Nevertheless, the virtues of having such a facility might be worth considering within the United States. This article briefly explains how an American Education Bank might work, be financed, and be governed. Finally, the article uses the Metropolitan Nashville Public Schools as an illustration of the problems the bank might address and the kinds of financial innovations that it might stimulate. The point of the article is not that there is a single solution to the problem of public education in the United States but, rather, that an unusual solution must be found if those problems are to be addressed effectively.

Why a World Bank" for American Education?

Last year I attended a meeting at which two school superintendents spoke on the fiscal problems they faced. Both were from traditionally wealthy districts, but because of court-mandated intrastate fiscal redistribution, a sudden growth in special-needs and non-English-speaking students, lowered property values, and demands to adhere to new federal and state standards, both superintendents believed that their districts were in a state of fiscal crisis and needed new infusions of public tax resources. If you want higher quality, they said, you have to pay for it.

This year I have been listening to the discussions about what to do about the school systems in New Orleans, Mississippi, and Louisiana, which have been devastated by flood and hurricane damage. Should the federal government finance the reconstruction of those school districts as they were prior to the natural disaster? Prior to Hurricane Katrina, these were some of the most dysfunctional school districts in the country. Not only were they poor, but they

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were apparently corrupt and unable to govern themselves effectively. Should taxpayers in California and North Dakota be expected to finance the reconstruction of a broken system so that it can continue to be broken? By contrast, does a natural catastrophe present an opportunity to construct a new system for New Orleans, one which will be competitive with some of the best in the country?

These circumstances are analogous to the educational circumstances I confronted while working over the past two decades at the World Bank. I helped education systems work through problems of fiscal crisis. In exchange for creative and often courageous policy reforms on the part of local officials, we would negotiate fiscal support. It was sometimes the case that the size of that support was sufficient to help the borrower stabilize their income and expenditures over a period of five years. The support could be worth as much as one-quarter of the recurrent budget. The effect of the support and the reforms would possibly raise quality and fiscal solvency.

School districts and state governments (including both state legislatures and state governors) in our country are unique in that their independent sources of revenue make them in effect autonomous bodies. They have the authority to raise and administer revenues, set salaries, and establish budgetary controls. In some respects, they are not unlike nations. Unlike nations, however, states and school districts have no World Bank to which they might turn for assistance. The World Bank is like an equity-owned company, in which shares are controlled by the owners. On instruction of the owners, the World Bank makes loans, with professional conditionalities. Nations cannot borrow unless agreement is reached on a set of reforms designed to place the borrower's school system on a sustainable footing with respect to fiscal affairs, and to policies as they might pertain to educational quality, efficiency, and equity.

There are several reasons why we might want to consider a World Bank for American education. Redistribution of fiscal resources through state legislation or by court order may not be sufficient to solve the problem of poor performance or fiscal bankruptcy. There are simply not enough resources to go around, nor are resources distributed to low-income school districts in exchange for the budgetary and fiscal reforms necessary for sustainability. Nor is it evident that putting a ceiling on a wealthy school district's ability to invest

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in its own children would be in the public interest. How then might a low-income district be encouraged without, at the same time, handicapping school districts currently advantaged in terms of resources?

The traditional format by which federal legislation assists school districts is through a preset purpose (vocational education, early childhood education, etc.). This has the effect of confining the recipient to receiving assistance in that arena alone. The area of preset assistance may not be the highest priority within the district, and on occasion, having federal assistance in a given area may have the effect of neglecting an area of higher local priority. The amount of available resources is often too small to justify significant structural reforms, so the anticipated improvements are considered to be independent of the district's fiscal solvency. Consequently, when the federal resources run out, the program may cease, and the district's fiscal health may not have improved.

An education bank might address these drawbacks in several ways. It could provide the incentives and the mechanism so that local and state officials could reach consensus on radically improving effectiveness in the way that a school district utilizes resources. It could provide new resources to jump-start impoverished school districts. The resources advanced to a district would be a loan, not a grant. The capital would flow back into the common pool over time and be available for new lending to other borrowers. Most important, as with the World Bank, the American Education Bank would advance loans on a sliding scale of interest, with the poorest school districts being offered the lowest rates and the best terms.[1]

But why is such a bank necessary? Aren't these kinds of policy discussions already under way? Don't central authorities, state legislatures, governors, city mayors, and the federal government already allocate resources attached to conditions? Isn't this the essence of the No Child Left Behind Act (NCLB) and many other laws and regulations governing the distribution of educational assistance?

Current debate over education reform seems stuck. There are suggestions for "supply-side" improvements like better curricula, more focused teaching training, more specialized services for students with special needs, better teaching equipment, and the like. Most federal legislation and private philanthropy, for instance, concentrate on these supply-side efforts. Recipients are not asked to repay the capital, nor are they often required to adhere to professional conditionalities. This is one reason why private education philanthropy is being questioned as to its long-term effectiveness (Hees 2005).

Then there are "demand-side" improvements such as higher assessment standards, school choice for families, merit pay for teachers, and opening up school services to competitive suppliers. The implementation of new performance standards is one of the underpinning characteristics of the NCLB legislation. Some might suggest that the assistance provided by NCLB is too

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small to justify the costs of implementing the assessment testing that accompanies the new standards; nor does NCLB attempt to address underlying fiscal issues that sometimes lie at the heart of a school district's low performance.

Recommendations on both the supply and demand sides are sometimes determined by philosophical orientations, the interests of labor unions, and other interest groups. These have a tendency to shift back and forth from one side to another based on the political party in power. Real progress may seem elusive.

Current education debate also tends to treat local school districts as passive recipients of policy and passive participants in policy reform proposals. Differing political factions and philosophies may compete over preferred solutions, but few seem to turn to the districts themselves and ask, Suppose the resources were sufficient to make a significant difference in the quality of your education system for the next decade, and suppose you were asked to justify why your district deserved, on a competitive basis, these resources over other districts, what would you do?

Suppose there were a World Bank for U.S. education, and suppose its resources were sufficient to lend up to 25 percent of a school district's recurrent budget, for a period of five years, at a rate of interest considerably lower than the market?[2] These incentives might be sufficient to make the state legislature, the governor, the superintendent of public instruction, and the district school board interested in borrowing and in considering reforms and managerial changes on which, previously, they could not reach agreement.

What Would an American Education Bank Do?

The purposes of an American Education Bank might be divided into two broad categories. One might be to help with the reconstruction after a devastating act of nature, such as Hurricane Katrina in New Orleans. A second might be to offer an opportunity for the significant restructuring to those school districts willing to consider fiscal reform as part of their long-term strategic plans. With either purpose, four categories of reform might come up for consideration, and each would have implications for long-term district fiscal solvency: (1) elimination of programs judged to be of lower priority, (2) financial diversification, (3) quantum increases in efficiency, and (4) significant improvements in governance and the process of decision making.

In the case of less-necessary programs, characteristics that could be seen as unnecessary might be up for discussion.[3] Few urban school districts in industrialized democracies maintain a separate system of public transportation for schoolchildren. In Paris, London, Berlin, and Tokyo, for instance, children get to school on public transportation with subsidized fares. Perhaps an urban school district might propose to experiment by eliminating the duplication

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between public transportation systems. Other districts might raise the issue of athletics. That all students should get healthy exercise is axiomatic, but a district might argue that healthy exercise is not the same as interscholastic competition. Australia values competitive sports but sponsors them through private neighborhood organizations instead of school systems. Perhaps a district might propose to raise resources for interscholastic competition through independent neighborhood foundations rather than through tax resources. Some districts might take a look at activities that contain a portion of personal consumption instead of human capital investment—driver's education, occupational counseling, and marching bands. They might propose, if agreed to by state authorities, that these be provided through mechanisms other than schools and financed by budgets other than for education.

Diversifying and improving the resource base might be a second category for discussion. The property tax as the basis of much educational financing has significant problems, not the least of which is the fact that those with the most children of school age are the least likely to pay property taxes, rendering it difficult to convince voters to raise taxes for a service they do not directly need. Some districts might include a proposal, with evidence that it was feasible, to have local industries or employers tax themselves for purposes of education; some districts might propose, with agreement from local fiscal authorities, a special tax on tobacco or alcohol, or a progressive local income tax. Some might also propose, again with evidence that it was feasible, that a proportion of the budget be raised through voluntary contributions.

Significant improvements in efficiency might also be under discussion. Class time is sometimes misallocated because of the exigencies of managing large numbers of age-segregated adolescents through a mixture of important and superficial activities—chemistry labs, pep rallies, early lunch, and more. In terms of size, American schools are the largest in the world. Some school districts may propose small schools and greater attention to time-on-task as possible loan conditionalities.

There is also the question of teacher salaries. Teachers constitute the largest single profession, and their salaries are by far the largest budget item. But no matter how much teachers are paid, it is not easy accurately to differentiate excellent from mediocre teachers. Often the effects of merit-pay schemes have been diluted by the low amounts devoted to the merit pay and to contradictory priorities. However, if a local district were intent on professionalizing its teachers, with a loan for that purpose from the American Education Bank, it might be able to offer salaries and other incentives of such magnitude as to justify new criteria for judging teacher merit. These need not mindlessly adhere to pupil tests but could be based on a teacher's after-school assistance to children in need. And of course schoolteachers would have to help design the criteria. An American Education Bank, in conjunction with the state government, might

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work with a local school district to suggest a series of professional reforms that appear to have potential. They might include regular teacher upgrading with significant pay increments based on performance, with performance defined by the teachers themselves.

One last category for discussion might be the question of educational governance and the process of reaching consensus over policy. Schools sometimes appear to be in a serious dilemma. How can they balance the priorities among football, drama club, mathematics, community service, foreign languages, and driver's education? Since there is little precedent for a community to have sufficient resources to finance everything to everyone's satisfaction, a loan from an American Education Bank might help the school board to achieve a new consensus over priorities.

In the end these are only categories of ideas up for discussion. The ideas for conditions accompanying loans must come from the borrower, not from the American Education Bank. The district would be free to suggest any reforms that might improve fiscal solvency and administrative efficiency. An American Education Bank, on the advice of its board, might choose to accept or reject them, but in no instance should the relationship between the borrower and the lender be characterized as one of "imposing" conditions. Local school districts and other borrowers would be expected to be creative and to recommend conditions from which they would want to benefit, and since only a few of the districts would be able to qualify for loans, only the most creative and courageous of the districts would be chosen.

How Would an American Education Bank Work?

Establishing a bank devoted to the public good requires careful planning. What follows are issues for consideration in five areas: (1) governance, (2) sources of finance, (3) staffing, (4) terms of lending, and (5) the bank's evaluation and auditing.

Governance

State governments would be invited to purchase a minimum level of membership before local school districts and municipal authorities in those states could join. The cost of the membership subscription would be based on a sliding scale of state GDP per capita. States could purchase equity shares above their minimum membership subscription. The federal government would be asked to match the resources of the states. School districts and municipal authorities would be invited to purchase a minimum number of

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shares to be considered for borrowing. Voting rights on the executive board would correspond to the level of purchased equity shares. Voting rights would accrue to any owner of equity shares, whether state authority, local authority, or another shareholder.

There would be a broad partnership of public and private sources of capital and a variety of public governmental levels—federal, state, county, and municipal. Each would be encouraged to be equity owners. Private memberships, from both religious and nonsectarian school systems, would be welcome. Memberships of teacher associations would be welcome, and if otherwise qualified, all would be welcome to borrow. Educational services and construction could be purchased from private or public providers through loans.[4] Providers of services would be available though an open and competitive process of bidding. However, no one could bid on a request for proposal unless it was registered in a state that had purchased a membership. The bank might best be governed with a conservative "gearing ratio" (capital to be held in reserve) so as to limit risk of "moral hazard." Loans to local school districts would be guaranteed by the state government. Borrowers who do not repay on time would be declared "in arrears" and would be prohibited from further borrowing. Private companies situated in states in arrears would be prohibited from bidding on projects.

A question might arise as to why state governments would want to join an American Education Bank if it could finance reforms within their own states on their own authority. In addition, wouldn't a state worry about having its financial resources used to assist school districts in other states?

States might want to join the American Education Bank for several reasons. Their own resources would be leveraged by additional resources from the federal government, from other states, and from private contributors. They would wish to ensure that companies in their states would be allowed to compete for contracts to provide educational goods and services to projects supported by the American Education Bank, both within their own state and in other states. Also, state authorities might feel that their own resources would be more effectively used if school districts in their states were in the lead in designing proposals for consideration.

State legislatures are naturally conservative about the use of their state's resources. What legislature would consider legislation that would, in theory, support school reform out of state? The fact is, however, that resources in many states are already used outside of the state of origin. This recycling occurs for social goods such as defense and foreign policy, but it occurs also in the case of individual benefits from social welfare, unemployment compensation, agricultural subsidies, health care, and educational assistance. So a state legislature might argue that if there is already a mechanism for redistributing assistance, why would one agree to join an American Education Bank?

A state that becomes a member would have representation on the bank's

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board and could help direct policy. No state is without low-income school districts. Being a member would allow a state to help channel assistance to poor and innovative districts within the state; hence, many states would end up being both a borrower and a donor. Local businesses would be able to compete for contracts assisted by the bank. Loans would be based on innovative ideas about fiscal sustainability. Local school districts would likely be keen to learn about the successes of particular reforms elsewhere. Educational reforms might become a state "export product." Honor for having an exportable education product would be prestigious. High-income states would likely take pleasure in being a source of ideas utilized elsewhere. Finally, the public debate on "set asides" in federal legislation has seemed to reinforce a pessimism as to the fairness or efficiency of the normal federal legislative process. Should education be subject to the same legislative logrolling as a "bridge to nowhere"? Some state legislatures may feel that joining an American Education Bank is a more certain mechanism to address a local and national problem.

There might also be a question about the motives for a wealthy and privileged school district. Why would Fairfax County, Virginia, or Evanston, Illinois, want to join the American Education Bank? Don't these districts have sufficient investment capital? And don't they already have access to technical talent? It is not at all clear that they would want to join. But many nations, such as Korea, Ireland, Thailand, Malaysia, and Portugal, which are on the edge of "graduating," continue to borrow from the World Bank, not for reasons of needing the capital but for the benefit of having the free state-of-the-art ideas about education reform that come as an associated benefit of borrowing. It might well be the case that a Fairfax County might want to reap similar benefits, which can only be acquired with active membership.

Sources of Finance

Subscriptions and shareholdings would be used. A portion might come from the initial offerings of subscription memberships and the sale of equity shares. Bonds could be floated for specific capital needs. Uncommitted capital could be invested in the equity or bond markets. Interest payments and loan capital would flow in on a regular basis. Cofinancing might be expected from banks, foundations, local corporations, and private entrepreneurs.

Staffing

It would seem reasonable to maintain only a few permanent staff.[5] These staff members might consist of project officers with implementation skills and ex-

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perience, economists, policy analysts, and administrators, selected perhaps for short-term (three-to-five-year) assignments. Officials from the more innovative state governments might be expected to spend part of their career developing management experience at the American Education Bank.

Terms of Lending

Interest rates would be set at below the private market rates. Loans could be guaranteed by state governments, but repayment would be the responsibility of the borrower: the school district, a private school system, or a local public school district in combination with the state government. The level of interest rate might best be established in parallel to the GDP per capita of the local school district; the poorer the borrower, the lower the rate of interest.

Evaluation and Audit

Operations of the bank should be subject to a financial and an educational audit, with results open to the public. Auditing and evaluations ought to be conducted on the basis of competitive bidding among private firms and universities.

How Might the Bank Work in a Given Example?

By the standards of many rural districts, Metropolitan Nashville Public Schools (MNPS) is wealthy, but by national standards its funding level is below the median. Like many other urban districts, MNPS has a high dropout rate (18 percent). Over one-half of the students qualify for reduced-price lunches. One in 10 students in Nashville, Tennessee, are from non-English-speaking homes, more than any school district in the state. Funding has fluctuated widely. In the early 1990s there were increases, but there have been decreases thereafter.

The long-term prospects are discouraging. In general, MNPS obtains resources from four sources: local taxes, state funds, federal support, and issuing its own bonds. Local property taxes and the local option sales tax revenues have been the major sources, but requests to raise the property tax have failed twice in past ballots. There are multiple reasons for the failure of public support. On the one hand, the Nashville property tax rate ($4.58) is low by comparison to those in other Tennessee cites such as Chattanooga ($5.58), Knoxville ($6.01), and Memphis ($7.27). On the other hand, there is a "general tax fatigue" in Tennessee (which has no income tax), and voters are quick to

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reject proposals that would raise taxes of any kind. The local sales tax is currently 9.25 percent, is considered high for the region, and may not be raised without significant objection. However, there is some apprehension that monies raised for schools in Nashville will be reallocated by the courts to other parts of the state. The other sources of local revenue include a local option sales tax. This source is beneficial in a growing economy, but because it is driven by consumer demand, it can be unstable as a source. Moreover, by state law, the local option sales tax cannot be raised above 2.75 percent. In effect, there is currently a ceiling on new local resources.

The second source of revenue is the state government. Tennessee school enrollments are growing at six times the national average. The need for educational investment is higher than the national average, but the outlay is only 68 percent of the national average. For the most part, the resources that the state can garner from taxation are 71 percent of the national average. However, the state share of the MNPS budget has slipped from 40 to 31 percent over the last few years. The decline is expected to continue, in part because of the court-ordered reallocations of state educational resources, which advantage rural districts.

The federal government is also an important source of support under the Individuals with Disability Education Act (IDEA) and the Elementary and Secondary Education Act. However, federal resources received by MNPS in recent years have been offset by costly new federal regulations.[6] Bond issues are the last source of income for MNPS. But these are used only on rare occasions, and only when absolutely necessary for the construction of a specific school. Tennessee is among 19 states without a plan for credit enhancement (state guarantees of local bonds); hence, when MNPS has to raise money through the issuing of a bond, it has to utilize a private marketing agent and must pay a higher price because of a lack of a state guarantee. Thus, for MNPS, about half the cost of new school construction is the cost of financing.[7] Last year, MNPS spent $700,000 to finance the cost of its borrowing. Because of the high cost, borrowing has not been a common fiscal feature for MNPS. Small bond issues are used to help finance specific capital expenditures such as the $43 million in the current budget for a new high school.

In essence, MNPS is in a very difficult position fiscally. Step increases in salary for current employees and obligations to finance pensions of retired employees continue unabated. Improvements in efficiency can help. The board could fire the current superintendent and find a new one. It could cut expenses. It could streamline administrative procedures. But it is difficult to imagine, without taking a new look at the fiscal situation, that any reform of the system can deter the coming “fiscal train wreck” of the municipal schools. Given the exigencies of its pensions and salary increases, just for MNPS to maintain current services, it will have to reduce its budget by 4–5 percent per year.

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Would the situation of MNPS be resolved if the state of Tennessee were to back up school bonds with a state-level reserve fund? It would certainly help. A state-level reserve fund would be similar to the American Education Bank. A central guarantee permits a lower rate of interest, and hence it encourages more creative uses for development capital than the construction of a new facility. The risk of default is low. In rare instances, a state can request reimbursement. The result is that districts gain significantly in terms of leverage and confidence.

There are three differences between the proposed American Education Bank and scenarios in which the states would back up districts with a state-level reserve fund. In the case of the American Education Bank, all funding would be included in a strategy plan, not just funding for capital improvements. In addition, the interest rate would be on a sliding scale; thus, the American Education Bank would even out the differing levels of access to development capital between districts associated with differing tax bases. Finally, the loans would be considered on the basis of creativity in fiscal planning, and so the loans would be made to those districts most deserving in terms of risk.

What would happen if there were an American Education Bank available to MNPS? The first thing to remember is that the school district would have to approach the bank, not the other way around. If MNPS were to approach the American Education Bank, it would be because the district thought it might already have an unusual plan that could solve its fiscal dilemma. For instance, MNPS is currently "allowed" to use property that is officially owned by the municipal government. It is one example of the legal complexity of a school district that has fiduciary authority in some, but not all, aspects of its operations. But suppose the city council were willing, with proper controls, to invest in the long-term interests of the schools. Suppose the municipal government were willing to make a "gift" of an educational property endowment to be owned and operated by the MNPS in perpetuity. This could place MNPS on a legal plain similar to the state land-grant university.

Nashville, like many urban areas, has experienced large shifts in population. School property, often situated on highly valuable land, is no longer directly useful to education. But because of the difficulties over ownership, the disposal of such property and the allocation of income from its sale or lease can become a barrier to urban development. But suppose the fiscal health of the school district depended on the effective use of property, and suppose the proceeds from the sale, lease, or rent would be a normal part of the long-term fiscal planning of MNPS? The property could be used as collateral if borrowing is needed, and if there was a coherent fiscal plan with new sources of funding, it could be used to justify borrowing from the American Education Bank. Taking the World Bank as an analogy, if there was an American Education Bank, it might consider a loan to MNPS with a low rate of interest.[8] The loan amount

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could be the equivalent of 25 percent of the normal MNPS recurrent budget, approximately $125 million for five years, or a total of $625 million.

Funding of this magnitude sometimes allows different sides to discuss possible new solutions. To be competitive with other possible borrowers and to justify the fiscal commitment of the American Education Bank, the money might be directed to solving one of the many important policy dilemmas on which consensus had been lacking. This could include teacher pay performance with significant rather than trivial rewards, a complete coverage of new school technologies, new charter schools, new testing and evaluation facilities, or new schools on weekends and in the evenings to serve those who otherwise might drop out, and so on. In many instances, a plan with tangible experiments can draw cofinancing partners. These might be national foundations or local philanthropists whose resources could be packaged as part of the overall “project” financing of which the American Education bank funds might be less than half.

The MNPS might repay a loan like this in three ways. It could sell or lease select properties that were no longer directly useful for educational purposes. This could include an old high school near the city center whose land might be used as part of the new conference center. It could include properties repurposed for industrial or commercial rental, thus providing an income well into the future. The MNPS could also generate savings by applying the innovations agreed to as part of the project negotiation process. Finally, it is sometimes the case that fiscal responsibility and creativity generate public confidence in the education system. Such confidence is helpful when the public is asked to vote on property and other taxes. It might be the case that, with new confidence in the fiscal creativity of MNPS, the public might agree to raise the property tax to help finance repayment of the American Education Bank loan. In essence, the loan could become part of a larger strategy of building a consensus around public education as a priority.

Suppose this kind of an agreement between MNPS and metropolitan and state governments were to achieve its objectives. What would be the result? The result would be that MNPS would have a new source of revenue on which to carefully plan and draw support. It would have an endowment of land that, if carefully managed, could raise its fiscal stature with lending authorities and those that market bonds. It would have the experience of seeking its own fiscal health rather than being the object for direction by other governmental stakeholders. It would create new respect with municipal and state authorities, which could look on MNPS with pride at being such a source of independence and innovation. And it would help set new precedents for fiscal innovation in other districts both inside and outside of Tennessee.

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Summary

Either because school districts have been injured by a natural catastrophe or because they are inherently underresourced, some might argue that school districts deserve more tax resources on the ground that the mission of education is important. Education is important, but then so is health care, social security, and police protection. By contrast, if school districts seek a loan from the American Education Bank, they would know ahead of time that they needed to be creative and courageous in their justifications and that the burden of proof that they were worthy of this investment was on their own shoulders. The institutions governing education, such as local school boards, would agree to a series of changes, make serious choices, and be able to question long-held dysfunctional traditions.

If there were an education bank available for U.S. education, there might be four outcomes:

1. There would be competition among school districts to generate education reforms, and there would be a change in the way that school districts are treated. Instead of being on the receiving end of administrative regulations, they would be more in control of their own strategies, innovations, and financial responsibilities.
2. Since nonpublic school systems would be allowed to compete, and since the American Education Bank would not directly be part of the federal government, there would be a way to assist nonpublic school systems without abrogating principles of the separation of church and state.
3. There could be significant improvements in the quality of education and in educational outcomes in some of the poorest of the nation's school districts.
4. There would be a mechanism to improve the chance of achieving fiscal solvency, first in those school districts that have the courage to borrow, but eventually in many other school districts that may be influenced by seeing the success of reforms elsewhere.

Notes

1. The International Development Association is the loan "window" of the World Bank, which loans to the poorest of countries. The interest rate is about three-fourths of 1 percent. There is a grace period of about seven years. The period of amortization changes but is about 20 years. Though it is officially a "loan" after 20 years on those terms, it is largely a grant.

2. Loans might be made in either a "project" or a "policy-based" format. In the

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first, the project may extend over a five-year period. The district would be reimbursed for agreed-on expenditures. In a policy-based format, "tranches" of money would be advanced directly to the school district's account after agreed-on policy reforms are put into place. These reforms may require new state legislation, new configurations of its budgetary process, new sources of resources of revenue, or changes in administrative procedures. A six-year project, for instance, may have three tranches expected, each released when it is agreed that the policy or administrative measures—all of which would relate to fiscal sustainability—would be put into place.

3. The following are mentioned as illustrations only. True recommendations and suggestions would be expected to be generated by the school districts themselves. It is assumed that each district approved for a loan would design a project to fit individual needs and circumstances. No preapproved policy menu would be necessary, nor would the criteria for lending be driven by partisan principles. It is also expected that there would be healthy competition and that the most able school districts would be judged in part on their level of creativity and the feasibility for implementation.

4. There is reason to expect that state departments of education or local school administrations might wish to bid to supply educational goods and services to borrowers in other parts of the country and, hence, to open up a new source of revenue and technical experience.

5. One important benefit of the American Education Bank would be the discussion of reform ideas with the potential borrowers (and the analytic work that underpins those assessments). This work would be free of charge to potential borrowers and would constitute a form of technical assistance without conditions.

6. In the beginning of the IDEA, the federal government was expected to cover 40 percent of the additional services needed for the handicapped; today it covers 20 percent. Also, 20 percent of the $19.6 million from the NCLB must be set aside to implement school choice provisions for "failing schools."

7. Massachusetts, for instance, reimburses between 50 and 90 percent of the costs for local school construction based on a formula that includes the percentage of students in the local district eligible for reduced-price school lunch. Incentives are made available for districts with managerial revenue-saving innovations. Oklahoma makes a Common School Trust Fund (CSTF), which guarantees the bonds raised by local school districts. If a district were to fail in meeting its obligation, the state pays the bondholders from the principal of the CSTF, and the district must reimburse the fund within 30 days.

8. The interest rate for the poorest nations that borrow from the World Bank is 0.75 percent, with a seven-year grace period and an amortization period of about 30 years.

Reference

Hees, Rick, ed. 2005. *With the Best of Intentions: Lessons Learned from K–12 Philanthropy*. Cambridge, MA: Harvard University Press.

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