Policy Memo

Classroom Space for Every Student in Every Family in Every Community

April 16, 2024

The Buckeye Institute's Recommendation

To help relieve capacity concerns and make financing classroom construction more affordable, The Buckeye Institute **recommended** that the General Assembly use some state set-aside funds for one-time projects to create a revolving loan program for non-district schools to use for expansion. To aid that effort, the General Assembly should also authorize the state treasurer to make linked deposit programs and a loan guarantee program available to non-district schools.

Background

As Ohio continues its effort to put **students first** by expanding eligibility for the state's **EdChoice program**, enrollment in non-public schools has spiked and many charter schools open to voucher students could reach classroom **capacity limits** soon if they haven't already.

To help pay for school facilities and campus growth, traditional public schools have access to **more than $11 billion** in state funds through the **Classroom Facilities Assistance Program**. But private schools and public charter schools do not. Instead, they typically require private construction loans at market interest rates to pay for new facilities and classrooms. With interest rates rising and construction costs escalating with historic inflation levels, adding classroom space and improving school facilities has become a major challenge for non-district public schools.

Ohio policymakers can help in several ways.

First, with a small amount of the One-Time Strategic Community Investments Fund set aside in the **state's operating budget** last year, Ohio can create a revolving loan program to provide low or no interest loans for classroom expansion.

Second, Ohio can offer low-cost financing options through linked deposit programs that authorize qualified financial institutions to act as "**public depositories**." The approved institutional lenders obtain a certificate of deposit (CD) from the Ohio treasurer with the state voluntarily accepting a below market interest rate on the CD so that the lender can use the savings to "buy down" the interest rate on the loan and help the school save up to three percent in financing costs. The treasury has authority to invest up to 12 percent of the state's average investment portfolio in such programs, and already runs **AG-Link** for purchasing farm equipment and **Grow-Now** for small businesses with less than 150 employees to provide similar low-cost financing options.

And finally, Ohio could create a loan guarantee program for non-public schools similar to the **Ohio Capital Access Program** (OCAP) and the **Collateral Enhancement Program** (CEP) run by the Ohio Department of Development. Under OCAP, the borrower and lender pool up to six percent of the loan into a reserve fund held by the lender with the state adding a small additional amount, which can then be used to offset loan losses, making it easier for the lender to offer lower interest rates. The CEP operates differently but supplies cash pledges to lenders thus enhancing the loan collateral for borrowers and incentivizing the lender to offer loans they otherwise would not underwrite.

Taking any of these proactive financial steps will help relieve growing capacity issues at many non-district schools across the state.

Conclusion

As Ohio continues working to empower families to find education providers that meet their child's academic needs, capacity constraints at non-district schools can hinder that objective. State lawmakers should make it easier for non-district schools to access capital and affordable financing to build classrooms and expand their facilities to keep pace with student demand.