Put it to the Voter: Issues in School Bond Referenda

Mark Bondo

Introduction

Voters in Lexington-Richland School District Five in South Carolina recently turned down a potential $256.5 million bond referendum to finance construction and maintenance of its schools. This marks the second time in three years that such a referendum has been turned down in the district.[1] Population growth coupled with aging infrastructure has made school construction a priority for many school districts in South Carolina. This paper will discuss school bond referenda in South Carolina. First, it examines laws pertaining directly to school bonds and those that may impact school bond funding. Next, demographic factors and their effects on referenda will be analyzed. Political aspects of referenda and their passage will then be reviewed. Lastly, possible strategies for passing referenda identified in previous research will be examined.

Laws Pertaining to School Bond Debt

In South Carolina, Article X of the State Constitution gives school boards the power to issue debt. Title 11, Chapter 27, Article 10 of the South Carolina Code of Laws addresses the impact of Article X on bonds. School bonds are addressed further in Title 59, Chapter 71, Article 1, of the South Carolina Code of Laws (also known as the "School Bond Act").

Under Article X, Section 15 of the Constitution of South Carolina, school board districts are given the power to incur general obligation debt, provided that a majority of the voters within the school district pass the measure in a referendum. School boards face a "debt limit" on the amount of general obligation debt that they may incur. For school districts, the debt limit is 8% of all assessed property value within the school district. Finally, school bonds can be issued for no longer than 30-year period.[2]

The School Bond Act provides additional guidelines and restrictions for school districts issuing general obligation bonds. The Act only allows general obligation debt to be used "for the purpose of defraying the cost of capital improvements." The required referendum is the responsibility of the county election commissioners. Notice of the election must be given at least once and "not less than fifteen days prior to the election." The notice must show, among other things, the amount of the bonds and a description of how the bonds will be used. The treasurer in the county in which the school district is located must create a separate fund to receive the proceeds of the bond sale for the use of the school district.[3]

It should be noted that there have been two recent major changes in the way South Carolina finances public education that may affect public perception and acceptance of bond referenda for schools: the South Carolina Education Lottery (SCEL) and the Property Tax Reform Act of 2006.

In 2000, voters in South Carolina approved a constitutional referendum which established the SCEL (Article XVII of the State Constitution grants the state the authority to conduct the education lottery). Title 59, Chapter 150, Section 350 of the South Carolina State Code lists the recipients of South Carolina state lottery funds. The funds from lottery sales go toward prizes, retailer's commissions, operating expenditures, and the remainder into the Education Lottery Account. The portion of funds that go into the account is designed to "supplement but not supplant" education funding. According to documents from the SCEL, in the 2006-2007 academic year, 28.7% of lottery proceeds went into the account. Of that 28.7%, the vast majority (72%) went to higher education, primarily to fund scholarships. Of the remaining portion of the account not directed towards higher education, or 26%, went to primary and secondary programs, and 2% went to "other educational programs."[4]

Lotteries designed for education may have an impact on the passage of school bond referenda because they could reduce voter acceptance. A *New York Times* piece raised the prospect of reduced support for education funding due to lotteries. According to an official from the Association of California School Administrators, "It [the lottery] makes it harder for us to convince people that they still need to support education… they think the lottery is taking care of education."[5] While no study appears to have been done on the presence of state lotteries and the likelihood of school bond referenda passage, other studies have addressed related issues that raise the possibility of harmful effects.

Evidence exists to lend support to the hypothesis that state lotteries could reduce the likelihood of bond referenda passage. In a study of SCEL, Ghent and Gant (2007) found evidence that those voters who supported establishing South Carolina's lottery did not vote for an opportunity to gamble, but rather for a mechanism to finance public education. According to their study, "Arguably, the strongest determinant of lottery approval was the performance of schools; individuals appear to have been motivated to vote for the lottery to provide greater opportunities for their children."[6] Erekson et al. (1999) also found evidence of voter support for state lotteries under the rationale of increased education funding. In their analysis of factors influencing state adoption of lotteries, they established that the lower a state's per pupil expenditure and worse its fiscal condition, the more likely that the state would adopt a lottery.[7]

Ghent and Grant (2007) specifically note how the South Carolina lottery was presented to voters. The lottery and education, specifically failing schools and low SAT scores, were central issues in the 1998 gubernatorial race. The lottery was also presented specifically as an "education lottery."[8] Many voters may believe that that education finance has been taken care of, regardless of the fact that the vast majority of Education Lottery Account funds are in fact directed towards scholarships and higher education. This belief is supported by the evidence that citizens voted to support the "Education Lottery," and are confronted with this phraseology in convenience stores, television, and in other areas. Finally, according to a latter study by Erekson (2002), "If lottery funds are giving voters a false sense of security regarding educational funding, voters may erroneously reduce

property taxes and other forms of support for public education because they see lottery funds as being supplemental."[9]

In 2006, South Carolina changed how primary and secondary education was to be financed, to take effect in 2007. Under the old method, school districts relied on local property taxes to finance operating expenditures. Under the new method, passed as H. 4449 and H. 4450 during the 2005-06 legislative session, school operating expenditures are now financed by a one penny increase in the state sales tax. Increases in the property tax for local governments were also constrained under the Property Tax Reform Act of 2006.[10] Similar to the perceptions raised created by the SCEL, the question must be asked: "Do voters feel that the property tax changes of 2006, in any way, make bond referenda seem either unnecessary or wasteful?" The likely response is that the tax change was fresh in voters' minds and, additionally, lowered and capped a very unpopular tax. Thus, given this, voters may be less likely to approve increases in property tax to fund capital expenditures for education.

Demographics

Demographic characteristics can influence many areas of public policy. In the world of public finance, demographic trends can affect the popularity of various taxation measures, need for public services, and decisions about how to meet those needs. It is no great leap in logic to see that changing demographic trends may impact school bond referenda passage. Two demographic trends that affect South Carolina are the aging population and the growth of the Hispanic population.

South Carolina has become an older state, as the percentage of those aged 65 and older has increased.[11] Interestingly, some literature examines the question of the "grey peril" for school bond referenda (Plutzer and Berkman, 2005; MacManus 1995; Duncombe et al. 2003).[12] The logic behind the question of the "grey peril" lies in self-interested voting. The direct beneficiaries of school bond referenda are students and, more importantly for voting, their parents and school employees. However, all in a school district will share in the costs, whether directly through higher property taxes or indirectly through higher rents. The senior citizen population may be more inclined to vote against referenda because they may be more sensitive to higher property taxes due to living on a fixed income, and see little benefit due to not having any children. The "grey peril" may be further exacerbated given that the older population may be more likely to vote than younger residents. The literature, however, seems mixed at best on the question of whether or not senior citizens support public education.

Several studies have analyzed the effect of voter's age on the likelihood of school bond referenda passage, with the conclusion that age alone does not seem to lead to failure in passing bond referenda. For instance, using surveys in a New York school district, Duncombe, Robbins, and Stonecash (2003) found that senior citizens did not vote "en masse" against public education. [13] However, Tedin, Matland, and Wieher (2001) found that the older white population was more likely to vote against school bond referenda in Houston, though no differences were found, it was pointed out, for the black and

Hispanic voting populations.[14] In analyzing per pupil education spending, Porteba (1997) found that the higher the fraction in an area's elderly population, the less per pupil education spending.[15] Plutzer and Berkman (2005) found no evidence to support the conclusion that senior citizens are less likely to support education finance. In fact, they found evidence that support for education actually increased as their study population aged.[16]

Ehrenberg et al. (2004), when analyzing school budget referenda passage in New York, found evidence that may support Plutzer, as communities with a higher percentage of elderly appeared more likely to pass school budget referenda on the first try. However, MacManus (1996) found that those over age 50 in a school bond election were much less willing to support its passage than those under 50.[17] Berkman and Plutzer (2004) found that the elderly tend to support education expenditures if they have been longtime residents of a community. However, if communities have large senior immigration, associated with retirement communities, they are associated with lower education expenditures.

The conclusion from the literature discussed above, therefore, appears to support the idea that senior citizen voting preferences toward education spending are more complicated than the conventional notion of "grey peril" would lead one to believe. Both MacManus and Plutzer and Berkman (2005) found evidence that contradicted the notion that seniors are likely not to support education. Indeed, failure to pass bond referenda may be due to a variety of factors. Perhaps seniors have recently moved to a community and do not feel obligated to support local education. Perhaps the seniors who have remained in the community, no longer feel connected to the community because the community has changed substantially over their lives. Perhaps seniors support education, but believe that schools do not need increased funding or are somehow wasteful in the use of existing resources. Finally, perhaps seniors would have passed a smaller bond referendum.

The two studies referenced above[18] additionally found evidence that race mattered as regards school finance. Both studies found that the white senior citizen population was more likely to turn down a school bond referendum if the school age population was of a different race or ethnicity. Reasons for such an effect were not given. However, a possible reason may be that a neighborhood or community has undergone change such that an older population no longer identifies with the local schools. In South Carolina, considerable debate has been given to the rise in the Hispanic population.

In South Carolina, the Hispanic population makes up a relatively small portion of the total population. In 2006, the U.S. Census Bureau reported that approximately 3.4% of the population identified themselves as Hispanic. Though this percentage appears small, it represents a relatively large increase in the Hispanic population in the state. Hispanic growth from 1990 through 2006 was nearly 400%; however, it should be noted that this is due to added population on a small Hispanic population base (approximately 30,000 in 1990). Nevertheless, the Hispanic population growth has garnered national, state, and local attention. U.S. Census numbers most likely understate the real number of Hispanics in South Carolina, as a substantial share may be unauthorized. A Pew Hispanic Center

(2005) study notes that the large increase in Hispanics will have a large impact on public education in the South.[19] The growing Hispanic population will impact schools now and in the future because Hispanics entering the Southern region and the state are younger, and thus in prime child-bearing years.[20] Over the years 2004 through 2006, South Carolina public schools saw a 39% increase in Hispanic enrollment.[21]

As part of the debate over policy responses to the unauthorized population, one proposal has been for state and local governments to deny or restrict service to children of such persons. Many states have sought to deny public benefits, such as higher education to unauthorized immigrants and their children.[22] Children of unauthorized persons are eligible for public primary and secondary education.[23] For school bond referenda, the issue is whether or not voters think that an increase in tax dollars would go to fund children of unauthorized immigrants. Unfortunately, many may paint the entire Hispanic ethnicity with the brush of "unauthorized." Hickey (2006) states that Hispanics and African American voters are more likely than white voters to vote for school bond referenda, but reasons were unknown.[24]

The Hispanic migration has also impacted local governments and school districts the greatest. Given the demographic characteristics of the Hispanic population, they will likely use local services such as hospitals and schools.[25] Given the lack of federal action, and the limited authority of state and local governments, persons opposing bond referenda may be doing so as a backlash if they believe the benefits of such a proposal benefit the influx of Hispanic persons. Horton and Thompson (1962) showed that political alienation and feelings of powerlessness were dominant motivators for people voting against referenda.[26] Some who vote down school bond referenda may be reacting to a perceived powerlessness in immigration reform, or feel that demographic changes in the community have somehow severed their attachment to the community. Research shows that voters who feel that they are not a part of a community may be less likely to support school bond referenda.[27]

Aside from the studies mentioned above, there did not appear to be other published research linking the passage of school bond referenda with immigration. However, school administrators may have to combat against a notion that increased capital expenditures financed through referenda are due to increase Hispanic population growth, and that this funding is somehow improper.

Political Theory

By definition, a school bond referendum is a measure that *directly* benefits limited numbers of the voting population. This population would include primarily parents of students and school employees. However, the entire population of registered voters within a school district is obviously allowed to vote on a school bond. Thus, voters may—and often do—weigh the costs of the ballot measure, in this case the increased property tax and time spent voting, against their perceived benefits.

School bond referenda rarely are voted on during the same time as general election, and thus likely voters in a school bond election may vary greatly, with few voters in the middle, i.e., those who do not care about the issue one way or the other. This could be a positive and a negative for the likelihood of bond passage. Dunne, Reed, and Wilbanks (1997) showed that special elections are likely to increase the passage of a bond referendum because they reduce turnout.[28] In fact, turnout and bond referenda have been negatively related for an extremely long time. Horton and Thompson (1962) found that increased turnout reduced the likelihood of passing local referenda.[29]

However, because school bond referenda occur during special elections, it is more likely that these elections will pit two sides against one another. On one side will be those who benefit directly from the bond issue. On the other will be those who are strongly opposed to the bond issue. Thus, the success or failure of a measure becomes a game of turnout between two opposed sides.

Strategies for Passing Referenda

There are three main stages in passing bond referenda: preparing "the message," crafting, and implementing. Perhaps the most important part of ensuring that a ballot measure passes is in the crafting of the measure and the education of the general public to the measure. When crafting a ballot measure, administrators need to be as clear as possible as to the absolute cost, items to be included, and the predicted impact on individual property owners.

With regard to preparation, Kelly and Zieper (2001) name the beginning stages the capacity building, feasibility research, and polling phases. Capacity building is the process of finding local leaders across the community that can help craft the ballot measure and support it.[30] For school bonds, building capacity means that school district employees (teachers and administrators) must be extremely involved in developing school bond referenda because they are huge sources of support.[31] Schools must also reach out to community groups to ensure success. This is true especially when area residents do not trust the school district.[32] Feasibility research involves more than a simple financial analysis of the project. A successful feasibility analysis will analyze school district needs and what the community will support. Such an analysis must take into account "fiscal issues, political circumstances, key community issues and priorities, and results of past elections."[33] For example, if a school bond was defeated in the previous year, one may want to scale back a proposal from what is optimal to help in passage. Related to a feasibility study is polling. Districts should poll citizens to determine how to craft the specific ballot language, but also to see what issues could harm ballot approval. For example, if residents do not trust the district or are wary of how the money would be spent, the district may address such an opinion before seeing a failed referendum.[34]

After performing the first three steps, a ballot measure must be designed and the district must campaign for its passage.[35] Within ballot design, it is important to note that a school district is not just competing for scarce resources between itself and citizens. The

district is also competing against other worthy public needs. In public transportation referenda, some have found that increasing the beneficiaries of projects can increase the likelihood of bond acceptance. For example, within public transportation, while it may be advantageous to have a referendum to support a rail project (Werbel and Haas 2007), combining other modes of transportation brings in more voters.[36] In the field of school bonds, it may be helpful for a bond package to include other amenities where possible. For example, might recreation and meeting facilities be included for local residents, especially senior citizens? Simonsen and Robbins (1999) found that individual citizens were more likely to support increases in spending for government services when individuals consumed more services. Also, voters may want to see their geographic area benefit from construction.[37] It may be important to increase the geographic spread of the bond related construction.[38]

Finally, the process of school bond referenda does not end once the measure has been passed. The package must be implemented. As Hickey (2006) points out, relationships and trust building is one of the most successful strategies in passing ballot measures. One way to ensure that a foundation of trust is maintained is by sustaining support after the passage of a bond measure. Some strategies include showing when and where bond related construction is taking place. For instance, one may place a temporary billboard showing that the project is financed by a bond.[39] Also, continuing to issue information about bond related issues, such as project updates helps to build and maintain trust among residents.[40]

Conclusions

Perhaps the biggest question surrounding school bond referenda (or any referenda) is: Should individual voters make financial decisions for schools after they have duly elected representatives at the city, county, state, and school board level (coupled with a state constitutional debt limit)? Given the circumstances normally associated with referenda, a resolution to such a question seems unlikely to occur in the near term. As such, schools must seek bond referenda to achieve their financial needs.

Schools need to understand that regardless of the public's approval of education, in general, its support may not lead to ballot measure success. The days of simply putting forward tax increases to support education are most likely gone. School districts must be more sophisticated, and communicate with the public on the need and use of referendum money. Also, districts must realize that they are competing against many other needy projects. School districts are also competing against perception. Perhaps one perception they must fight is that of the implication that recent measures such as South Carolina Education Lottery or Property Tax Reform have *solved* education finance.

Furthermore, in order to pass referenda, ballots must be carefully crafted. Second, because South Carolina is a more diverse state, a referendum may need to recognize this and offer a more diverse package of benefits beyond schools. Voters may be more accepting of a referendum that offers more than just schools. Third, school administrators should have a coordinated and professional strategy to market their message to the

voters—especially in an environment where voters may feel that education finance has been sufficiently addressed. Even though public choice literature suggests the opposite, it may be democratically and financially advantageous for communities to schedule bond votes during the general election. Finally, school districts must continue bond referenda campaigns after the election to build trust for the next referenda that is sure to be needed.

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About the Author: Mark Bondo is a Research Associate with the Institute for Public Service and Policy Research at the University of South Carolina. Mark holds a Bachelor of Arts from the University of South Carolina and a Master of Public Administration from the University of North Carolina at Chapel Hill. Prior to joining the Institute, Mark worked for the United States Government Accountability Office in Washington, DC.

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