
December 1999

CALIFORNIA'S SCHOOLS & PROPOSITION 26

On the March 2000 ballot, Proposition 26, the Majority Rule Act for Smaller Classes, Safer Schools and Financial Accountability, asks voters to decide whether a simple majority requirement will replace the current two-thirds voter approval requirement for the passage of local school bond measures. Proposition 26 is similar to Proposition 170, which was defeated by voters in a November 1993 special election.

WHAT WILL PROPOSITION 26 DO?

Proposition 26 makes both constitutional and statutory changes to the current laws governing school facilities funding in California. In brief, Proposition 26:

- Allows a majority of local voters to approve school bonds, a reduction from the current two-thirds requirement.
- Imposes accountability requirements on districts that want to issue school bonds.
- Allows charter schools greater access to public school facilities.

Thirty-eight states allow majority approval of school bonds under all circumstances. Only California and New Hampshire require two-thirds approval for local school bonds at all times.

Vote Requirement

Current Law. The voters must approve General Obligation (GO) bonds, whether issued by the state or local governments.¹ While the state can issue GO bonds by majority voter approval, bonds issued by local governments have been required to win two-thirds voter approval since 1879. While the issuance of local bonds requires supermajority approval, voter approval is not required for any property tax increase needed to repay any approved bonds.

Prior to Proposition 13, local school districts levied property tax rates based on the amount of revenue needed to support both operating and facility costs. In 1978, voters approved Proposition 13, which capped the property tax rate at one percent, reducing property tax revenues by more than half.² The

¹ A GO bond is a bond that is repaid from the state or local government's general fund and backed by the full faith and credit of the issuing entity.

² Proposition 13 also made a number of other changes limiting the growth of property tax revenues and imposing supermajority vote requirements on certain local tax increases. Subsequent legislation divided property tax revenues between individual jurisdictions within a county in rough proportion to the shares received prior to the passage of Proposition 13.

reduction in revenues limited local governments', including schools', ability to finance facilities out of locally-generated property tax revenues and prevented the imposition of additional tax rates dedicated to the repayment of debt.

In 1986, voters approved an amendment to the state constitution allowing local governments to levy property tax rates in excess of one percent to pay the interest and principal on bonds used to finance the acquisition or improvement of public facilities with the approval of two-thirds of the votes cast. This gave local governments the ability to increase property taxes above Proposition 13's one percent cap for a very specific purpose – the repayment of voter-approved debt.

Proposition 26. If enacted, Proposition 26 would allow local school districts, community college districts and County Offices of Education to increase the property tax rate above the one percent cap with a simple majority, 50 percent plus one, of the votes cast.³ The revenues from the additional tax can only be used to pay the interest and principal on GO bonds issued to finance the construction, rehabilitation, and replacement of school facilities, including the furnishing and equipping or the acquisition or lease of real property for school facilities. The vote requirement for bonds to finance facilities other than schools would remain two-thirds.

In order for a school bond measure to qualify for the simple majority approval provided for in Proposition 26 the school district, community college district, or County Office of Education must:

- Use the proceeds from the bonds solely for the construction, rehabilitation, and replacement of school facilities;
- Certify that safety, class size reduction, and technology needs were evaluated when developing the required list of projects to be funded by the bonds; and
- Conduct annual financial and performance audits to ensure that the funds have been used responsibly and solely for the specific projects listed.

Charter Schools

Current Law. School districts must permit charter schools operating in the district to use facilities that are not currently being utilized or that have not been historically used for rental purposes. Charter schools do not have to pay a fee to use the facilities, but they are responsible for reasonable maintenance costs.

Proposition 26. Proposition 26 requires school districts to make facilities reasonably equivalent to those in other public schools in the district available to charter schools. However, districts are not required to rent, buy, or lease facilities for charter school students and they may deny requests from charter schools that enroll fewer than 80 students from within the district. School districts may charge charter schools for their share of any facility costs.

HOW WILL PROPOSITION 26 AFFECT SCHOOL FACILITY COSTS?

Allowing local voters to approve school bonds by majority vote will almost certainly increase the number of successful local bond measures. To the extent more bond measures are successful, Proposition 26 will lead to an increase in local property tax rates. However, the exact cost of Proposition 26 is unknown and the overall impact on state and local finances is more complex. To the extent

³ This analysis will focus on local K-12 school districts as these districts are legally required to provide matching funds for school facilities in order to access state funds and so are more effected by school bond measure voting requirements.

majority vote allows local districts to raise a greater share of the funds needed for school facilities at the local level, state costs could decline. The Legislative Analyst estimates that Proposition 26 could result in an increase in local costs in the hundreds of millions of dollars within a decade.⁴

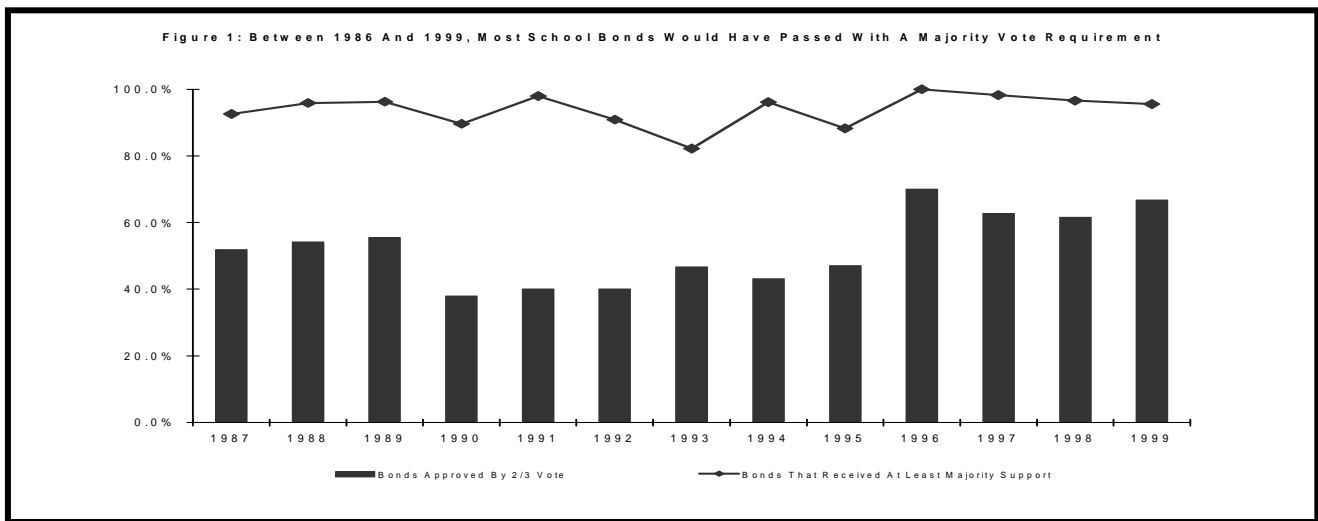
Looking at the success rates of past K-12 bond elections from June 1986-June 1999, it is clear that significantly more bonds would have passed if a simple majority vote requirement had been in place. Voters approved \$15.9 billion under the existing two-thirds requirement during this period.⁵ An estimated \$6.5 billion in additional bonds would have been approved if a simple majority vote requirement been in place. In terms of the success and failure rate of elections, 83 percent of bond measures defeated between 1986 and 1999 would have passed had "majority rule" been law.

Measures with 2/3 approval on first attempt	\$11,141
Measures with 2/3 approval on subsequent attempts	\$4,780
Total with 2/3 approval	\$15,921
Measures never receiving 2/3 approval	\$7,215
Of the bonds that never received 2/3 approval, those at received over 50%, but less than 2/3 approval	\$6,526

Source: CBP calculations from School Services of California data. Subsequent attempts are defined as bonds that passed within five years of the first attempt within the period examined.

Reducing the voter approval requirement may also increase the ability of districts to raise money during recession years. For example, during the recession years of 1990-1994, only 42 percent of local school bond measures passed for a total of \$2.8 billion. In contrast, voters approved 54 percent of the bonds on the ballot between 1986 and 1989 and 60 percent of the bonds on the ballot between 1995 and 1999. If a simple majority vote requirement had been in place, over 91 percent of the bond measures would have passed in each of the three periods. In brief, a lower vote requirement could make it easier for schools to raise needed funds during future recessions.

The impact of reducing the vote requirement on state costs is less clear. The Legislative Analyst's Office (LAO) predicts two possible outcomes.⁶ One is that 'hardship' districts that currently rely on the state for 100 percent of their funding for school facilities might be able to raise local funds with successful

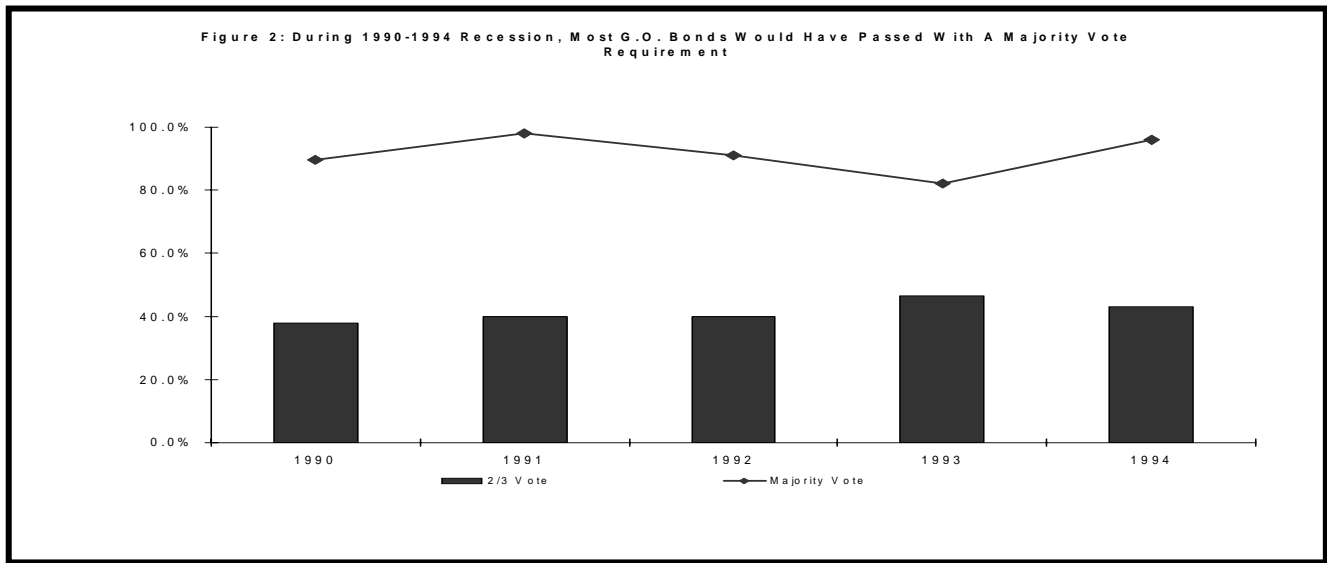


⁴ Legislative Analyst's Office, *Proposition 26* (downloaded from http://www.lao.ca.gov/initiatives/2000/26_03_2000.html on November 23, 1999).

⁵ This estimate counts both bonds passed on the first attempt and those passed within five years of the first attempt during the period analyzed as approved. The estimate of the dollar value of defeated bonds excludes repeat elections within a five-year period by a single district.

⁶ *Proposition 26, School Facilities. Bonds. Local Majority Vote* (Legislative Analyst's Office: 1999), p. 3.

bond measures. Alternatively, by making it easier to raise the required local match, Proposition 26



could increase state debt service costs as more districts participate in the state’s School Facility Program.⁷

WHAT ARE CALIFORNIA'S PUBLIC SCHOOL FACILITY NEEDS?

California Department of Finance (DoF) estimates the total funding need for new and improved public school facilities to be \$14.1 billion with \$5.2 billion provided by existing bond authority.⁸ This leaves a gap of \$8.9 billion over the next 10 years for K-12 school facilities construction, maintenance, and modernization. Factors driving this need include increased enrollment, the need for new classrooms to implement the state’s class size reduction program, new technologies and curriculums, and deferred maintenance of older school facilities.

Modernization And Deferred Maintenance

The California Department of Education (CDE) estimates that between 1998 and 2003 local school districts will need \$2.6 billion for deferred maintenance and \$9 billion to modernize school facilities.

The conditions of California’s schools compare poorly to those in other states. A study by the federal General Accounting Office found that the share of California’s schools with inadequate facilities exceeded the national average in all of the areas examined (Table 2). The California schools surveyed had only one computer for every 21 students, despite the state’s role as recognized leader of the high tech economy. Only two other states, Ohio and Rhode Island, have higher student to computer ratios.⁹

Increased Enrollment And Class Size Reduction

The state Department of Education estimates that enrollment will increase by 270,000 students between 1998-99 and 2003-04, with most of the growth occurring in grades 7-12. Housing the increased enrollment will require an estimated 307 new schools, 204 in grades K-8 and 103 in grades 9-12, at an

⁷ In order to participate in the state's School Facility Program, local districts must raise funds to match the state's contribution. If a district is unable to do so and they do not qualify for 'hardship' funds, they cannot participate.

⁸ California Department of Finance, *Capital Outlay & Infrastructure Report* (1999), p. 3.

⁹ US General Accounting Office, *School Facilities: Profiles of School Condition by State* (June 1996).

Table 2: California Schools Report Inadequate Facilities

	California	National Average	CA's Rank ¹
	Percent Of Schools With Inadequate Facilities		
Schools with at least one inadequate building feature	71	57	48
Schools with at least one inadequate environmental factor	87	68	51
	Percent Of Schools With Inadequate Features		
Building Features			
Roofs	40	27	49
Heating, ventilation or air conditioning	41	37	34 ^b
Life-safety codes	21	20	30 ^a
Environmental Features			
Lighting	31	15	50
Physical Security	41	24	51
	Percent Of Schools With Insufficient Capability		
Technology			
Computers	37	25	44 ^b
Printers	40	29	42 ^a
Modems	70	57	45 ^a
Wiring for communications	69	44	49

¹ Rank among the 50 states and District of Columbia

^a 2-way tie

^b 3-way tie

Source: General Accounting Office, *School Facilities: Profiles of School Condition by State*, June 1996

average cost of \$7.75 million for elementary schools, \$13.75 million per middle school, and \$36 million per high school.¹⁰

California's Class Size Reduction (CSR) program, enacted in 1996, will compound the facility shortages arising from this growth. California's elementary schools have reduced class sizes for approximately 85 percent of K-3 students by adding 28,000 new classroom spaces both by building new classrooms or going to year-round schedules.¹¹ While funds from Proposition 1A will address some of this need, expanding the program to other grades will require additional funds.

HOW DOES CALIFORNIA CURRENTLY PAY FOR PUBLIC SCHOOLS?

California finances the construction, maintenance, and repair of public school facilities using a combination of state and local school district funds. The state provides assistance for construction and maintenance of K-12 facilities and provides funds for the California Community College (CCC) system and state special schools. In 1998, SB 50 revised the system that the state uses to provide assistance to local school districts for education infrastructure. The State Allocation Board (SAB) allocates state school facility funds. The SAB provides New Construction grants, which requires local districts to match state funds on a dollar for dollar basis and Modernization grants, which require local districts to provide a match of \$1 for every 4 state dollars received.¹²

¹⁰ California Department of Education, School Facilities Planning Division, *School Facilities Fingertip Facts* (January 1999).

¹¹ EdSource, *What Has Created California's School Facilities Predicament* (April 1998), p. 1.

¹² SB 50 of 1998 (Chapter 407) requires that local school districts establish a restricted account within their general fund for maintenance of school facilities. The districts must earmark three percent of their annual budget, which can be counted toward the district's matching fund requirements, for this maintenance fund for 20 years after receipt of state school facilities money.

State funding for the School Facility Program comes from the General Fund and state issued bonds. In November 1998, California voters approved Proposition 1A authorizing \$9.2 billion to be allocated over a four-year period. Proposition 1A provides \$6.7 billion for K-12 facilities (\$2.9 billion for new construction, \$2.1 billion for modernization, \$1 billion for 'hardship' districts that cannot fulfill the local match requirements, and \$700 million for new K-3 Class Size Reduction facilities) and \$2.5 billion for higher education facilities.

Local school districts' options for financing school facilities are more limited. Districts can impose Mello-Roos assessments or developer fees on new construction, levy parcel taxes, and issue general obligation bonds. All but developer fees must be submitted to the voters and approved by two-thirds of those voting.

Local school districts in areas with new residential development have the option of raising funds for new construction using Mello-Roos assessments and developer fees.¹³ This approach is less feasible an option for districts in "built out" communities that must rely primarily on GO bonds.

WHY DO SOME BOND MEASURES SUCCEED WHILE OTHERS FAIL?

Between June 1986 and June 1999, 456 of California's nearly 1,000 school districts placed 720 bond measures before the voters for approval.¹⁴ Three quarters of these districts succeeded in passing a bond measure at some point during this period (Table 3).

In order to evaluate potential impacts of Proposition 26, the California Budget Project (CBP) analyzed the relationship between the outcome of votes on bond measures and the characteristics of California's school districts. CBP sought to identify the factors that are associated with the success rate of bond measures. The factors examined included the size of the bond measure and school district characteristics such as the size of the district, the diversity of student populations, and the students' economic status.¹⁵

	Number Of Districts	Percentage Of Districts Holding Elections
Election Results		
Measure Passed	254	56%
Measure Failed	115	25%
Both Passed and Failed	87	19%
Total Number of Districts Holding Elections	456	100%
Number of School Districts in 1998-99	988	

Source: School Services of California

This analysis found that:

- **Districts with more poor students are less likely to pass bond measures.** There was a small, but significant, decrease in the likelihood that a school bond measure will pass in districts with higher percentages of children aged 5 to 17 in families with incomes below the poverty threshold.
- **The strength of the economy influences the passage of bond measures.** CBP found that in 1992, in the depths of the recession in California, bond measures were significantly less likely to pass as

¹³ Proposition 1A restricted school districts' ability to impose developer fees by instituting a cap on fees. Districts must generate any additional revenues needed for facilities from other sources. This is primarily done with GO bonds.

¹⁴ The exact number of districts varied by year.

¹⁵ The analysis was based on data obtained from the California Department of Education's California Basic Educational Data System (CBEDS) for 1986-99 and the US Bureau of the Census 1995-96 School District Estimates. All results reported are statistically significant with $p < .05$ using a weighted least squares regression.

voters were unwilling to take on more debt in uncertain economic times. Conversely, voters have looked more favorably on school bonds since 1996 as the economy has strengthened.

- **Student diversity has mixed impact on bond measure success.** Districts with higher percentages of African American students were more likely to approve bond measures. Interestingly, districts with a higher percentage of Asian students were less likely to pass school bonds. Another unexpected finding was that districts with a higher percentage of students with limited English proficiency were more likely to pass bond measures.

The factors that did not statistically influence the outcome of school bond measure elections were almost as interesting as those that did. For instance, neither the size of the bond measure being considered nor the size of the school district had a significant impact on election outcomes.

ARGUMENTS SUPPORTING AND OPPOSING PROPOSITION 26

In Support. Proponents state that the current two-thirds vote requirement thwarts the will of the majority of California voters and allows a minority of voters to block needed school facility improvements. They argue that the property tax is a broad-based tax, since landlords pass increases on to renters, and so reducing the vote requirement ensures that all voters will have an equal voice in the decision to issue school bonds.

The existing disparity between the two-thirds requirement for bond approval at the local level and the simple majority requirement at the state level forces districts to rely on the state for their school facility needs. Proposition 26 would return control of school construction to local voters, while providing safeguards against school district fiscal and administrative irresponsibility.

Proponents reiterate that, while Proposition 1A provides state funds for school facilities, local districts must raise the required matching funds. They argue that the current two-thirds vote requirement makes raising these funds unreasonably difficult resulting in dilapidated and technologically inadequate schools.

Finally, proponents argue that in order for California to maintain a strong economy it must improve its schools. California will find it difficult to attract businesses to the state without a skilled labor force and the opportunity for a good quality of life. Schools are a key element in both of these. Given this, the current state of California's school facilities must be addressed not only to maintain economic growth but also to provide adequate space for increasing enrollments and to ensure the safety of students and faculty.

In Opposition. The opponents of Proposition 26 voice three primary concerns over reducing the current two-thirds vote requirement to a simple majority. First, they argue that while all voters can vote to pass a local school bond measure, it is only the property owners who are legally responsible for repaying the bonds. Thus, the higher vote standard is necessary to protect property owners.

Opponents are also concerned that if it becomes easier to pass local school bond measures then more controversial measures (i.e., measures to raise money to build swimming pools, tennis courts, etc.) and larger measures would be put on the ballot. If these pass, the result would be unduly high property taxes. Finally, opponents argue that passing Proposition 26 would encourage others to advocate the elimination of all two-thirds vote requirements for local bonds and taxes, thereby increasing the burden of California taxpayers.

CONCLUSION

There is very little debate over either the importance of good schools for California's economic future or the need for better school facilities in the state. Proposition 26 would most certainly make it easier for local voters to approve bonds to address school facility needs and so deserves careful consideration. When evaluating Proposition 26, voters should consider the following issues:

- Does the current two-thirds vote requirement place an unreasonable barrier between school districts and the funds needed to improve inadequate facilities?
- Does the discrepancy between the simple majority requirement for state bonds and the two-thirds requirement for local bonds prevent some districts from accessing available state dollars for facility improvements?
- Does the current two-thirds vote requirement give certain voters' preferences on school facilities funding greater weight than others?
- Are certain types of districts (i.e., districts with higher percentages of poor students) disproportionately effected by the current two-thirds vote requirement?

The California Budget Project (CBP) is a nonpartisan, nonprofit organization whose goal is to promote a better understanding of state fiscal issues in order to promote a healthy public sector based on a fair and equitable tax system. General operating support for the California Budget Project is provided by grants from the California Endowment, James Irvine, Ford, Charles Stewart Mott, Friedman Family, Streisand, and California Wellness Foundations and individual donations and subscriptions. This Brief was prepared by Delaine McCullough under the supervision of Jean Ross.
