Issue Brief

California Budget & Policy Center
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Proposition 51: Should California Voters Approve Bonds to Pay for School Facilities?

Proposition 51, which will appear on the November 8, 2016 statewide ballot, would authorize $9 billion in general obligation (GO) bonds for K-12 school and community college facilities. The measure would maintain California's current financing system under which state and local dollars are used to pay for K-12 school and community college facilities. This *Issue Brief* provides an overview of Prop. 51 and the policy issues it raises. The California Budget & Policy Center neither supports nor opposes Prop. 51.

What Would Proposition 51 Do?

Prop. 51, the "Kindergarten Through Community College Public Education Facilities Bond Act of 2016," would authorize $9 billion in GO bonds for construction and modernization of K-12 school and community college facilities.[1] The measure would provide $7 billion in bond proceeds for K-12 education facilities:

- $3.0 billion for construction of new school facilities;
- $3.0 billion for modernization of school facilities;
- $500 million for charter school facilities; and
- $500 million for career technical education facilities.

Prop. 51 would also provide $2 billion in bond proceeds for California Community Colleges (CCC). These funds could be used for a variety of projects, including:

- Purchasing land;
- Constructing new facilities on existing campuses;
- Renovating and reconstructing facilities;
- Paying for planning and preconstruction costs for community college facilities; and
- Equipping new, renovated, or reconstructed facilities.

Prop. 51 would maintain the current system for allocating bond funds for K-12 and CCC facilities. In addition, with respect to K-12 facilities only, state policymakers would be prohibited from changing the rules for allocating Prop. 51's bond funds unless approved by the voters.

How Has California Historically Funded K-12 School and Community College Facilities?

Until the 1940s, California's school districts primarily used local GO bonds to fund school facilities.[2] The state did not get involved in financing school facilities until 1947, when the Legislature established the State Allocation Board (SAB) to provide funds for the construction and renovation of schools. California voters approved the first statewide school bond two years later, and the SAB began to provide loans to school districts to finance new school construction. To obtain a loan from the state, school districts had to demonstrate that they had maximized their ability to raise bond dollars at the local level and also had to receive approval of at least two-thirds of local voters to incur the debt to the state.

In 1978, California voters approved Prop. 13, which severely restricted the ability of school districts to issue GO bonds – the primary source of local revenue for new school construction and modernization. Prop. 13 capped local property tax rates at 1 percent, reducing property tax revenues by more than half. This reduction in revenues severely limited the ability of local governments, including school districts, to finance facilities with locally generated property tax revenues and, furthermore, prevented the imposition of additional tax rates dedicated to the repayment of debt. In response, the Legislature began to shift how the state financed school facilities – from issuing loans to providing grants.

In 1986, California voters approved Prop. 46, which re-established the ability of local school districts to issue GO bonds. The measure allowed local governments to levy property tax rates above 1 percent to pay off the principal and interest on bonds used to finance the acquisition or improvement of public facilities with the approval of two-thirds of local voters. This gave local governments, including K-12 school districts and CCC districts, the ability to increase property taxes above Proposition 13's 1 percent cap for a very specific purpose – the repayment of voter approved debt.

How Does California Currently Pay for K-12 School and Community College Facilities?

California's system of financing facilities for K-14 education involves a combination of state and local dollars. To receive state funding for facilities projects, K-12 schools and community colleges usually must make their own contributions toward them.[3] The state and local districts (K-12 and CCC) both use GO bonds as the main source of funds for facilities.[4]

- State GO bond measures must be placed on a statewide ballot, either by a two-thirds vote of the Legislature and approval of the Governor *or* through the initiative process, where they require approval by a majority of voters. The principal and interest on state GO bonds are paid from the state's General Fund, which is supported by state taxpayers.
- Under state law, submitting a local GO school bond measure to voters requires the support of two-thirds of the governing board of a K-12 school district or community college district. Most GO bonds proposed by K-12 school and CCC districts require approval by at least 55 percent of local voters. Once local GO school bonds are issued they are repaid by taxpayers within the district.

K-12 school districts have an additional option for raising dollars to construct or reconstruct schools – imposing fees on developers. In 1986, the Legislature authorized K-12 school districts to levy developer fees on new residential, commercial, and industrial developments, but limited these fees based on the square footage of the development.[5] In practice, developer fees were limited to 50 percent of a school district's cost *as long as state funds were available* for new school facility construction. California voters have not passed a state GO bond for school facilities since 2006, and according to the SAB, state funds for new school construction ran out earlier this year. As a result, K-12 school districts are now able to levy developer fees that could cover 100 percent of the cost to build new schools.[6] However, school districts in areas of the state that lack new developments do not have the opportunity to levy developer fees to fund school facilities projects.

How Does the State Allocate Dollars for K-12 School Facilities?

State dollars for the current K-12 facilities program are allocated through the School Facilities Program (SFP). Established by the Legislature in 1998, the SFP funds two major types of school construction projects: new school construction and modernization.[7] SFP funding is allocated primarily through per-student grants to participating K-12 school districts on a first-come, first-served basis.[8] State grants are intended to pay for 50 percent of the costs of a new construction project and 60 percent of modernization project costs.[9]

State construction and modernization grants from the SFP are not provided to school districts until local matching funds are secured.[10] K-12 school districts that are unable to provide the required local match may apply for funding under the state's Financial Hardship Program (FHP). However, school districts must meet several requirements to receive FHP dollars, including demonstrating that they are unable to contribute the full local match and levying the maximum level of developer fees.[11]

The SFP also provides funding for charter school and career technical education facilities.[12] The Charter School Facilities Program provides funding to construct new charter schools and/or rehabilitate existing facilities that are at least 15 years old and are owned by school districts. The Career Technical Education Facilities Program provides funding to construct new career technical education facilities, modernize existing facilities, and/or purchase equipment for the career technical education programs. State grants are intended to provide 50 percent of the total project costs for charter school and career technical education facilities, but career technical education grants are capped at $3 million for new facilities and $1.5 million for modernization of existing facilities.

How Does the State Allocate Dollars for Community College Facilities?

State funding for community college facilities is allocated through the state budget. To apply for state funds, local CCC districts submit proposals for facilities projects to the CCC Chancellor's Office. The Chancellor's Office ranks projects based on several criteria, including prioritizing projects with larger local contributions, and each year submits a capital expenditure plan to the state. The Governor and Legislature approve specific CCC facilities projects as part of state's annual budget act.

What Are California's Facilities Needs for K-14 Education?

K-12 Schools

California does not maintain a comprehensive statewide inventory of K-12 school facilities, their capacity, or whether they meet the needs of California's students. As a result, it is difficult to determine projected future costs for K-12 school facilities.[13]

A 2015 report from the Legislative Analyst's Office (LAO), which used the replacement cost of existing buildings to assess future K-12 facilities needs, estimated that it would cost $200 billion to replace all California school buildings.[14] The LAO estimated that school districts would have to spend between $4 billion and $8 billion per year for building replacement, modernization, or maintenance, assuming a "useful school building life" of 25 to 50 years. Based on LAO's estimates, projected costs for K-12 school facilities could range from $40 billion to $80 billion over a decade, without adjusting for inflation.

California Community Colleges

The CCC Chancellor's Office estimates approximately $40 billion in unmet needs for CCC facilities from 2017-18 through 2026-27.[15] The CCC Chancellor estimates that $20.3 billion in local GO bonds remain uncommitted and may be used to fund these needs, leaving $19.7 billion remaining to be funded by state GO bonds.

Since the Late 1990s, K-12 and Community College Districts Have Contributed Far More for Facilities Than the State

Local districts have raised more dollars for school facilities than the state has over the past two decades. Since 1998, K-12 school and community college districts have sold approximately $85 billion in local GO bonds for facilities projects – more than twice the

$40 billion in state GO bonds sold to support facilities for K-14 education.[16] During the same period, K-12 school districts have also raised an additional $10 billion for facilities by imposing fees on developers.[17]

What Policy Issues Does Proposition 51 Raise?

Who Should Pay for California's K-12 School and Community College Facilities?

Most observers agree that significant funding is needed for new school and community college construction and for modernization of existing K-12 and CCC facilities. However, there is an ongoing debate over who should pay for these costs, and in what proportion. Prop. 51 would authorize additional state GO bond dollars for school and community college facilities, but it is uncertain how much funding K-12 school or CCC districts would raise for facilities at the local level if the measure is approved.

California voters made it easier for K-12 school and CCC districts to raise local dollars for facilities projects when they approved Prop. 39 in 2000. The measure reduced the threshold for voter approval of local GO school bonds from two-thirds to 55 percent. K-12 school and CCC districts that approve local GO bonds raise funds for facilities by increasing property tax rates to repay the bonds. Yet at the same time that Prop. 39 made it easier to pass school facilities bonds, the Legislature capped the tax rates that districts can levy on local taxpayers to repay Prop. 39 bonds. In addition, the state also caps the outstanding debt of K-12 school and CCC districts based on the total assessed property value in the district. Both of these caps limit the dollars K-12 school and community college districts can raise through local GO bonds.

Should California Change How It Allocates Funding for K-12 School Facilities?

Prop. 51 would maintain the requirements of the state's School Facilities Program and would prohibit state policymakers from changing SFP rules for allocating its bond funds unless approved by the voters.[18] Governor Jerry Brown has pointed to significant shortcomings and inequities with the SFP and has signaled a desire to create a program focused on K-12 school districts with greatest need.[19] To address the Governor's concerns, the state Department of Finance convened meetings to discuss a new school facilities program and obtain feedback from stakeholders, but no agreement was reached as to program design. This lack of agreement set the stage for Prop. 51, which would provide state dollars for K-12 school facilities, but would also essentially lock in a system that disadvantages certain school districts. For example, under the state's current SFP, dollars for K-12 facilities are allocated primarily on a first-come, first-served basis, which tends to reward school districts that are able to apply for funding more quickly and/or have more resources, such as larger districts with more staff.

Recent research has pointed to other inequities. In a 2015 report, the University of California, Berkeley's Center for Cities & Schools found that:

- School districts that have more taxable property value per student along with higher-income families, on average, raise more capital funds to pay for facilities needs than districts with less taxable property value per student and families with lower incomes.[20]
- On average, school districts serving the largest share of students from low-income families spent less per student on capital outlay – the construction and purchase of facilities – than districts serving the smallest share of students from low-income families.[21] Because lower-income districts spent less on capital outlay, the study found, these districts spent more of their general operating budgets on facilities maintenance, in turn leaving fewer dollars available for education programs.[22]

The Governor's 2016 Five-Year Infrastructure Plan recommends that a new facilities program should target state funding for K-12 school districts most in need, including districts with low per-student assessed property value and limited capacity to finance facilities projects.[23] However, Prop. 51 would require that dollars provided by the measure be distributed according to current rules for allocating K-12 facilities dollars, unless voters approve changes to these rules. This provision means that the Prop. 51 funds could not go toward creating the type of school facilities program the Governor recommends.

Should California Change How Much K-12 School Districts Can Levy in Developer Fees?

Prop. 51 would limit the amount that K-12 school districts can levy in developer fees. Because state dollars for new school construction are no longer available, K-12 school districts are currently permitted to levy developer fees that could cover 100 percent of the cost of building new schools. However, if Prop. 51 bond dollars become available, school districts would only be allowed to levy developer fees that cover up to a maximum of 50 percent of construction costs. In addition, Prop. 51 would prohibit the Legislature from changing the fees K-12 districts may collect from developers until 2021 or until all of Prop. 51's dollars for K-12 facilities are spent, whichever comes first.

Are General Obligation Bonds the Best Way for the State to Finance School Facilities?

Prop. 51 is the first GO bond for K-12 school or higher education facilities to appear on the state ballot since 2006. Between 1996 and 2006, in contrast, the Legislature placed five GO bond measures for K-12 school and higher education facilities on the ballot, all of which were approved by California voters. The irregular timing of the state's GO bond issuances for school facilities has contributed to uncertainty about the availability of state funding. Moreover, by financing school facilities through GO bonds, the state is paying for an ongoing expense through a temporary funding source.

Using an alternative approach, which treats K-12 school facilities costs as an ongoing expense, the LAO has recommended that the Legislature provide K-12 districts an annual grant per student for school facilities.[24] The grant would pay for a minimum share of a K-12 school district's expected facilities costs and would be adjusted based on differences in property wealth and on funding already provided to school districts from state dollars.

What Would Proposition 51 Mean for the State Budget?

Prop. 51 would authorize the state to sell $9 billion in GO bonds, a form of debt backed by the state's General Fund. The LAO estimates that the state would pay an average of $500 million per year in debt service costs for Prop. 51 bonds, less than one-fifth of the $2.7 billion the state will spend in 2016-17 to pay debt service for bonds previously sold to support K-12 school and community college facilities projects.[25]

The California Constitution requires the state to make debt service payments for GO bonds prior to all other expenditures, other than most education expenditures. As a result, dollars the state spends on debt service are not available for other state-supported services such as health care, education, and assistance for low-income families, seniors, and people with disabilities. The state has about $85 billion in outstanding infrastructure-related bond debt backed by the state's General Fund and paid approximately $6 billion in debt service on these bonds in 2015-16, according to the LAO.[26] In addition, about $31 billion of General Fund-supported bonds have been authorized, but have not yet been issued.

What Could Happen if Proposition 51 Is Not Approved by Voters?

If voters reject Prop. 51, the state would remain without GO bond dollars for school facilities. The state could use alternative approaches to finance school facilities projects, including annual cash expenditures or state loans to school districts. However, to the extent these resources come from the General Fund, the state could need to raise additional revenues or reduce spending on other public services, making these alternatives less likely.

Absent state dollars, K-12 school districts and CCC districts could finance facilities using local funding, including GO bonds. However, the state limits the dollars school districts can raise through local GO bonds by capping outstanding debt based on the total assessed value of property in each district. Moreover, some school districts may not be able to receive approval for GO bonds from local voters.

As another alternative, if Prop. 51 fails, K-12 school districts could finance construction by levying additional fees on new development. Because state funding still would not be available for new K-12 school facilities construction, school districts would be allowed to levy developer fees that could cover 100 percent of the cost to build new schools. However, using developer fees to pay for school facilities is not an option for school districts in areas of the state that lack new developments.

What Do Proponents Argue?

Proposition 51 is supported by the California Building Industry Association. Proponents of Prop. 51, including the California State PTA and the Community College League of California, argue that the measure "will repair outdated and deteriorating schools and upgrade classroom technology, libraries, and computer and science labs."[27] Proponents also argue that Prop. 51 "will be repaid from a very small amount of the state's existing annual revenue…[and] does not raise taxes."[28] Proponents of Prop. 51 claim that "without matching dollars from a statewide school bond, taxpayers will face higher local property taxes to pay for school repairs and upgrades, and some school districts may never be able to afford fixing schools on their own."[29]

What Do Opponents Argue?

Opponents of Prop. 51, including the California Taxpayers Action Network, argue that the measure is unnecessary as "local bond measures work better than statewide bonds …[and] school enrollment is expected to decline over the next 10 years."[30] Opponents of Prop. 51 note that "the Legislature did not put Proposition 51 on the ballot. And the Governor opposes it."[31] Opponents also argue that "Prop. 51 ties the hands of legislators and locks in current rules…that deny disadvantaged schools the help they need."[32]

Conclusion

Prop. 51 would authorize $9 billion in state GO bonds for construction and modernization of K-12 school and community college facilities. California voters have not had an opportunity to approve state GO bonds for K-14 education facilities since 2006, and state bond funding for this purpose effectively has been exhausted for several years. If voters reject Prop. 51, the state would remain without GO bond dollars for K-12 school and CCC facilities, leaving local districts without a key source of state support.

Prop. 51 would maintain the current systems for allocating state dollars for K-14 education facilities, which typically require contributions from K-12 school and CCC districts. However, state policymakers would be prohibited from changing the rules for allocating Prop. 51's bond funds for K-12 facilities unless these changes are approved by the voters. In this way, Prop. 51 would essentially lock in place a system that disadvantages certain K-12 school districts.

Jonathan Kaplan prepared this *Issue Brief*. The California Budget & Policy Center neither supports nor opposes Proposition 51. This *Issue Brief* is designed to help voters reach an informed decision based on the merits of the issues. The Budget Center was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The Budget Center engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the Budget Center is provided by foundation grants, subscriptions, and individual contributions. Please visit the Budget Center's website at calbudgetcenter.org.

ENDNOTES

1 Unless otherwise noted, references to K-12 school districts in this *Issue Brief* include county offices of education.

2 The 1879 revision of the state Constitution allowed school districts to issue general obligation (GO) bonds with the approval of two-thirds of its voters. While the issuance of local bonds required supermajority approval, until 1978 voter approval was not required for property tax increases needed to repay any approved bonds.

3 The Legislature allowed the state's high schools to create "junior colleges" in 1907. These colleges were part of the state's public school system and fell under the jurisdiction of the State Board of Education until 1967 when the Legislature and Governor formally established community college districts throughout the state with locally elected boards with the authority to make policy and fiscal decisions.

4 K-12 school and community college districts have other options to raise funds for school facilities. For example, K-14 school districts are able to form School Facility Improvement Districts (SFID) when facilities needs exist within a section of a district. Voters in the SFIDs can then vote to approve a GO bond for school facilities in that specific area. K-14 school districts are also able to raise facility funds by imposing parcel tax measures, but they rarely use this option.

5 AB 2926 (Stirling, Chapter 887 of 1986) authorized K-12 school districts to levy developer fees.

6 The State Allocation Board notified the Legislature that state funds for new construction of K-12 schools were not available as of May 25, 2016. If voters approve Proposition 51 and state funds for school construction become available, to the extent school districts collected certain developer fees they would need to re-pay a portion of them to either the state or to developers.

7 SB 50 (Greene, Chapter 407 of 1998) established the SFP. Modernization grants are provided for permanent buildings that are at least 25 years old, and are designed to extend the useful life of existing facilities through projects such as structural upgrades and electrical systems. In addition to grants for new school construction and modernization, the SFP includes several programs such as the Overcrowding Relief Grant Program and the Seismic Mitigation Program. For a description of all SFP programs, see Office of Public School Construction, *School Facility Program Guide* (October 24, 2012).

8 In addition to per pupil grants, the SFP provides supplemental grants to eligible school districts for a variety of program costs such as site acquisition and complying with fire code regulations.

9 SB 50 (Greene, Chapter 407 of 1998) set modernization grants at 80 percent of project costs and required school districts to provide 20 percent in local matching funds, but AB 16 (Hertzberg, Chapter 33 of 2002) reduced the state modernization grant to 60 percent of project costs.

10 After being awarded an SFP grant, school districts annually must set aside at least 3 percent of their total general fund budget for routine maintenance for a period of 20 years.

11 If a school district meets FHP requirements, the state will fund the difference between the amount the district can provide toward the local match and up to 100 percent of the facility project cost.

12 For a description of all SFP programs, see Office of Public School Construction, *School Facility Program Guide* (October 24, 2012).

13 In 2012, the California Department of Education commissioned a report by the University of California, Berkeley's Center for Cities & Schools that estimated statewide funding needs for K-12 facilities. The report projected $64 billion in total costs statewide for new construction and modernization of K-12 school facilities over the following 10 years based on several factors including enrollment projections and future facilities needs. The report's estimate for the cost of new construction included $11.6 billion to address increases in K-12 enrollment, but current projections show statewide K-12 enrollment *declining* over the same ten-year period.

14 Legislative Analyst's Office, *The 2015-16 Budget: Rethinking How the State Funds School Facilities* (February 2015), p. 7.

15 California Community Colleges Chancellor's Office, *2017-18 Five-Year Capital Outlay Plan* (2016), p. 6.

16 Legislative Analyst's Office, "Proposition 51: School Bonds. Funding for K-12 School and Community College Facilities. Initiative Statute. Analysis by the Legislative Analyst," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, pp. 19-20.

17 Legislative Analyst's Office, "Proposition 51: School Bonds. Funding for K-12 School and Community College Facilities. Initiative Statute. Analysis by the Legislative Analyst," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, p. 20.

18 While Prop. 51 would maintain how the state allocates dollars for CCC facilities, it would not require voter approval to change the rules for allocating dollars *raised by the measure* for CCC facilities.

19 Department of Finance, *California Five-Year Infrastructure Plan 2016*, p. 52.

20 Jeffrey M. Vincent and Liz S. Jain, *Going It Alone: Can California's K-12 School Districts Adequately and Equitably Fund School Facilities?* (Center for Cities & Schools, University of California, Berkeley: November 2015), p. 8.

21 The Center for Cities & Schools report defines "capital outlay" spending as "expenditures for construction of fixed assets; purchasing fixed assets including land and existing buildings and grounds; and equipment."

22 Jeffrey M. Vincent and Liz S. Jain, *Going It Alone: Can California's K-12 School Districts Adequately and Equitably Fund School Facilities?* (Center for Cities & Schools, University of California, Berkeley: November 2015), p. 17.

23 Department of Finance, *California Five-Year Infrastructure Plan 2016*, p. 52.

24 Legislative Analyst's Office, *The 2015-16 Budget: Rethinking How the State Funds School Facilities* (February 2015), pp. 6-8.

25 Annual debt service costs depend on the interest rate at the time bonds are sold and the time period over which the bonds are repaid. The LAO's estimate assumes Prop. 51 bonds will be repaid over a period of approximately 35 years at an average interest rate of 5 percent.

26 The LAO's 2015-16 debt service payment figure of approximately $6 billion includes the portion of dollars used to repay GO bonds for K-12 and CCC facilities projects.

27 "Argument in Favor of Proposition 51," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, p. 22.

28 "Rebuttal to Argument Against Proposition 51," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, p. 23.

29 "Rebuttal to Argument Against Proposition 51," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, p. 23.

30 "Argument Against Proposition 51," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, p. 23.

31 "Argument Against Proposition 51," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, p. 23.

32 "Rebuttal to Argument in Favor of Proposition 51," in Secretary of State's Office, *California General Election Tuesday November 8, 2016: Official Voter Information Guide*, p. 22.