
SENATE COMMITTEE ON EDUCATION

Senator Benjamin Allen, Chair

2017 - 2018 Regular

Bill No: AB 1196 **Hearing Date:** June 7, 2017
Author: Harper
Version: May 25, 2017
Urgency: No **Fiscal:** No
Consultant: Ian Johnson

Subject: School bonds: term of bonds: furnishing and equipping classrooms

NOTE: This bill has been referred to the Committees on Education and Governance and Finance. A "do pass" motion should include referral to the Committee on Governance and Finance.

SUMMARY

This bill requires the duration of bonds for projects that include classroom furnishings and equipment, such as electronic equipment, to be 120 percent or less of the average life of the furnishings and equipment being funded.

BACKGROUND

Existing law:

- 1) Authorizes a school district, community college district, or county office of education to incur general obligation bond debt for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities upon approval of 55 percent of the voters.
- 2) Specifies that the number of years the whole or any part of the bonds are to run shall not exceed 25 years, from the date of the bonds or the date of any series thereof.
- 3) Specifies that a school or community college district may issue bonds that do not allow for the compounding of interest and that have a maturity between 30 and 40 years if the school district or community college district complies with specified requirements.

ANALYSIS

This bill specifies that bonds used for the purpose of furnishing and equipping classrooms, including, but not limited to, electronic equipment, shall have a weighted average maturity not to exceed 120 percent of the average reasonably expected economic life of the furnishings and equipment.

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author, “Local educational institutions have been using Prop 39 bond funds to purchase non-facility related items with a much shorter usable life. For example, Los Angeles Unified School District bought iPads in 2013, which is now an abandoned project that cost \$1.3 billion. iPads have a life expectancy of between four and five years. This cost is a burden on taxpayers that is paid back over time through property taxes. AB 1196 is needed to ensure that taxpayers are not paying long term bonds for items that have a shorter lifespan.”
- 2) ***School and community college general obligation bonds.*** Proposition 39 of 2000 allows school and community college districts to seek approval of local general obligation bonds based on a 55 percent vote, rather than a two-thirds vote, provided that the local bond initiative meets specified accountability measures. Those measures include identifying the list of specific school facilities projects to be funded and conducting annual financial and performance audits.
- 3) ***Can bond funds be used for portable technological devices?*** Proposition 39 specifically requires the use of bonds authorized under its provisions “for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities.” Amid concerns about the use of these bond funds for the purchase of portable technology equipment by school districts, Legislative Counsel was asked to opine whether a school district could use bond proceeds to purchase portable technological devices, such as laptops and electronic tablets. In their report, Legislative Counsel noted that while portable electronic devices such as iPads were not in existence when Proposition 39 was passed, they are evolved from desktop computers and as such, are likely an authorized purchase, as long as they were intended for use in a manner closely connected to classroom instruction at a school facility.
- 4) ***Beyond federal bond issuance requirements.*** Federal law establishes various definitions for the purpose of meeting Internal Revenue Service requirements for tax-exempt government bond issuances. Among these are conditions which must be met regarding the term of the bonds issued. Federal regulations generally require that portions of an issue used to finance or refinance capital projects must have a “weighted average maturity” that does not exceed 120 percent of the average reasonably expected economic life of the financed capital projects. The provisions of this bill are similar, but not identical to the federal tax code provisions.

According to community college and school districts, bond programs are typically issued for a variety of purposes all at once, with varying maturities over the life of the program and with a mix of short-term and long-term issuances. As currently drafted it is unclear what effect the inclusion of furniture and equipment as a component of a bond issuance would have on a district’s overall bond program. Because the bill goes beyond the federal law requirements, the bill may have the unintended consequence of requiring the structuring of long-term obligation bond programs in a manner that increases the costs of bond issuances to the taxpayer. Additionally, it is unclear whether such a statutory restriction is necessary since at least one school district reports that it has balanced the need to acquire technology assets with shorter life spans, and the interest of

taxpayers, by issuing bonds with maturities of 1 to 3 years for the acquisition of technology.

Since federal law already requires the alignment of the term and the economic life of furniture and equipment, and no examples of school districts failing to comply with these requirements were provided to the committee, it is unclear whether the provisions of this bill are necessary. However, if the committee wishes to pass this measure, **staff recommends** that the bill be amended to require bonds used for the purpose of furnishing and equipping classrooms, including, but not limited to, electronic equipment, to have a weighted average maturity not to exceed 120 percent of the average reasonably expected economic life of the financed project.

SUPPORT

None received.

OPPOSITION

California Federation of Teachers

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