

May 18, 2016

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

LAO   
**75**  
YEARS OF  
SERVICE

# Overview of School Facilities Bond Measure

Presented to:  
Joint Hearing of  
Assembly Education, Senate Education, and  
Assembly Higher Education Committees

Chairs:  
Hon. Patrick O'Donnell  
Hon. Carol Liu  
Hon. Jose Medina





## LAO Role in Initiative Process

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### Initial Analysis

- Before a statewide initiative can be circulated for signatures, state law requires our office to work with the Department of Finance to prepare a joint estimate of the measure's fiscal impact on the state and local governments.
- A summary of the estimated fiscal impact is included on the petition that is circulated for signatures.
- The fiscal analysis must be completed within 50 calendar days from when the proponents submit the initiative to the Attorney General.



### Voter Guide Analysis

- Once a measure has received the required number of verified signatures and qualified for the ballot, state law requires our office to provide an impartial analysis of it.
- Our office currently is in the process of preparing our analysis of the school bond measure.



## State Financing of Infrastructure Projects

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- State Typically Funds Long-Term Infrastructure Projects Through Borrowing**
- General Obligation Bonds Most Common Method of Borrowing**
  - Must be approved by a majority of voters.
  - Their repayment is guaranteed by the state's general taxing power. Due to the very low risk of default, general obligation bonds tend to have relatively low interest rates and be among the least expensive forms of borrowing for the state.
- State Uses General Obligation Bonds to Fund Variety of Infrastructure Projects**
  - State has approved \$103 billion in general obligation bonds since 2000.
  - These bonds fund a variety of infrastructure projects, including school facilities, transportation projects (such as state highways), and resource projects (such as water quality projects).
  - Once approved by voters, the Treasurer is tasked with selling the bonds.
  - State repays general obligation bonds using General Fund dollars.



## State Financing of Infrastructure Projects

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- In 2016-17, the state will pay an estimated \$5.3 billion (General Fund) in total general obligation bond debt service. This represents 4.4 percent of estimated state General Fund spending in 2016-17.
- Over the past ten years, the state's debt-service ratio (that is, annual debt-service costs as a share of total annual General Fund spending) has ranged from a low of 3.9 percent (in 2007-08) to a high of 6.1 percent (in 2009-10).



## Financing School and Community College Facilities

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### **State and Local Partnership**

- Under the current facility programs, the cost of constructing and renovating facilities is generally shared by the state and school and community college districts.



### **Voters Have Approved \$40 Billion in State General Obligation Bonds Since 1998**

- Voters have approved four statewide bonds over the past 20 years (1998, 2002, 2004, and 2006).
- The *2016-17 Governor's Budget* estimates the state will pay \$2.6 billion in debt service for school and community college projects. This represents 2.1 percent of estimated state General Fund spending in 2016-17.



### **State Bond Funding Has Been Effectively Exhausted**

- The state effectively exhausted bond funds for community colleges in 2010 and for schools in 2012.



## Financing School and Community College Facilities

(Continued)



### School and Community College Districts Use Variety of Local Financing Options

- **Local General Obligation Bonds.** Primary source of local revenue for school and community college facility projects.
  - Can be authorized with approval of 55 percent of voters.
  - Are repaid by increasing property tax rates.
  - Since 1998, voters have approved \$95 billion in local general obligation bonds for school and community college facilities. Over the same period, schools and community colleges have sold \$87 billion in general obligation bonds.
- **Developer Fees.** State law allows school districts to impose fees on developers to help with school facility construction costs.
  - Approximately \$10 billion in developer fees have been collected since 1998.
- **Other Local Sources.** School and community college districts may generate funds for facilities in a few other ways, including creating special property tax assessment districts and enacting parcel taxes.



## K-12 School Facilities Program

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### **State Created Program in 1998**

- Provides funding for school facilities primarily through per-student grants.
- Requires local contribution from most school districts. Local share varies by project type, with a 50 percent share for new construction and a 40 percent share for modernization projects.
- If a district cannot afford its local share, they can apply for state hardship funding of up to 100 percent of the project cost.
- Districts submit project proposals to the State Allocation Board, which determines whether projects meet all requirements for funding.
- From 1998 to 2010, awards were largely provided on a first-come, first-served basis. Beginning in 2010, available bond funds were prioritized for school districts that could enter into binding contracts for their projects within 90 days of receiving state funding.



## K-12 School Facilities Program *(Continued)*

- Voters Have Approved \$36 Billion in State Bond Funds for School Facilities Program Since 1998**
- Funds Have Been Designated for Specific Types of Projects**

<b>School Facilities Program</b>		
<i>(In Billions)</i>		
	<b>Description</b>	<b>State Funding<sup>a</sup></b>
New Construction	Funds new construction, including site acquisition.	\$16.0
Modernization	Funds major renovations and repairs for buildings more than 25 years old.	11.0
Overcrowding Relief <sup>b</sup>	Funds a variety of projects designed to reduce overcrowding, including replacement of portable classrooms with permanent classrooms and the construction of new classrooms to reduce class size.	5.8
Charter Schools	Funds new and modernized charter school facilities.	0.9
Career Technical Education	Funds new and modernized career technical education facilities.	0.5
Other	Provides funding for joint school/community use, hardship funding for schools posing an imminent health and safety threat to students, and environment-friendly projects.	1.3
<b>Total</b>		<b>\$35.5</b>

<sup>a</sup> Reflects total state bond funding approved by voters since 1998, the inception of the program.  
<sup>b</sup> Includes funding for Overcrowded Relief Grants, Critically Overcrowded Schools, and the Class Size Reduction Program.





## Community College Facility Projects

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### **Projects Approved Through State Budget Process**

- Community college districts submit facility requests to the Chancellor's Office.
- The Chancellor's Office selects which projects to submit to the state based on a set of established priorities.
  - Top priorities include life safety projects, necessary equipment for recently completed projects, seismic updates, and projects to prevent building failure.
  - Remaining funds are used for projects to increase instructional capacity and modernize instructional space.
  - Projects with larger local contributions receive higher priority.
- The Governor and Legislature approve specific projects in the annual budget act.



### **Voters Have Approved \$4 Billion in State Bond Funds for Community College Facilities Since 1998**



## Overview of 2016 School Facility Bond Measure

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### **Provides \$9 Billion for Schools and Community Colleges**

- \$7 billion for school facilities.
  - \$3 billion for new construction.
  - \$3 billion for modernization.
  - \$500 million for career technical education facilities.
  - \$500 million for charter school facilities.
- \$2 billion for community college facilities.



### **Fiscal Effect**

- Assuming a 5 percent interest rate over a 35-year repayment period, we estimate state General Fund costs are \$17.6 billion.
  - This consists of \$9 billion to pay off principal and \$8.6 billion in interest over the period.
  - Annual debt-service payments would average \$500 million.



## Overview of 2016 School Facility Bond Measure

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### **Maintains Current K-12 School Facilities Program**

- Maintains the current program requirements by stating that bond funds from the measure may be used for the School Facilities Program “as it read [in Education Code] on January 1, 2015.”



### **Establishes General Community College Facility Provisions**

- Specifies that bond funds are for “meeting the capital outlay financing needs of the California Community Colleges.”
- Continues to provide the Chancellor’s Office with considerable discretion in determining funding priorities.