

March 30, 2017

School Facilities

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Budget and Fiscal Review Subcommittee No. 1
On Education Finance
Hon. Anthony J. Portantino, Chair





Overview of School Facilities Program



Greene Act of 1998 Established Program

- The act sets forth various rules for sharing the cost of school facilities between the state, school districts, and, in some cases, developers.



Both State and School Districts Use General Obligation Bonds to Finance School Facility Projects

- Voters approved \$35 billion in state general obligation bonds for K-12 facility projects between 1998 and 2006. State funding was effectively exhausted in 2012.
- The state repays general obligation bonds by making debt service payments using non-Proposition 98 General Fund.
- Voters approved \$102 billion in local general obligation bonds for K-12 facility projects from 1998 to the present. These bonds are paid for using local property tax surcharges.



State Currently Has \$2.4 Billion in K-12 Facility Applications

- A total of \$370 million in projects are on the state's "unfunded" list. These projects have been approved and are awaiting state bond funding.
- A total of \$2.1 billion in projects are on the state's "acknowledged" list. These projects have been submitted to the state but have not completed the approval process.

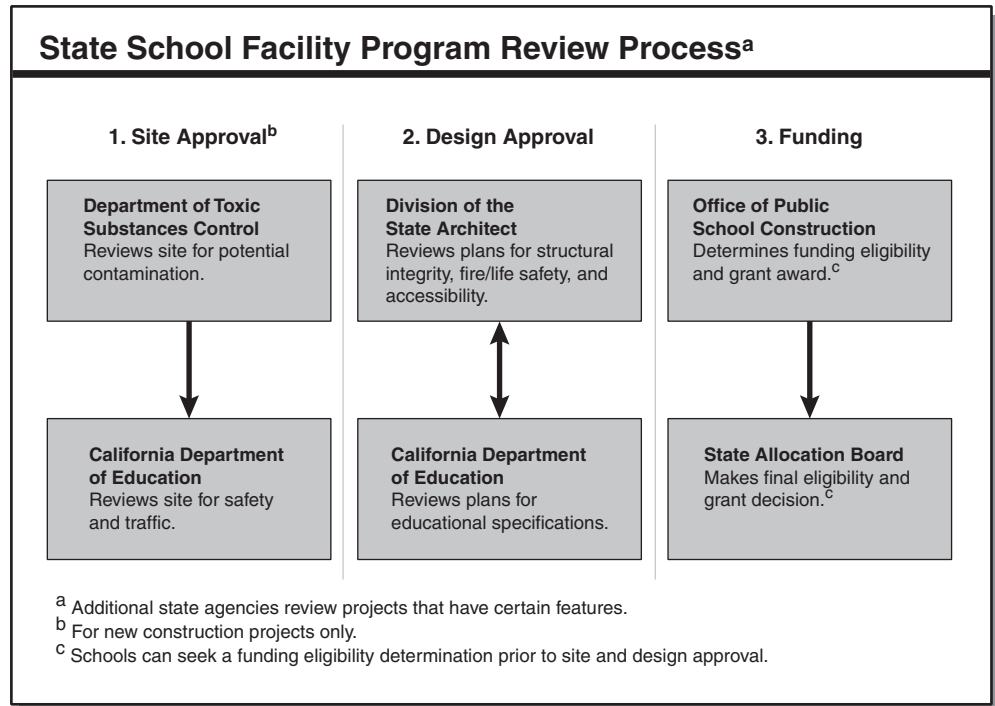


Voters Approved New State Bond in November 2016

- Proposition 51 (2016) authorizes the state to sell \$7 billion in general obligation bonds to fund K-12 facility projects. Of this funding, \$3 billion is for new construction projects, \$3 billion is for renovation projects, and the remainder is split between career technical education and charter school projects.
- Funding for school facility projects is to be issued in accordance with the Greene Act.



Project Approval Process





Governor's Proposals



Proposes to Shift Audit Responsibility

- Shifts responsibility for auditing School Facility Program expenditures from the Office of Public School Construction (OPSC) to local independent auditors. (The state requires districts to hire independent auditors to conduct annual reviews of many aspects of their budgets.) Proposes trailer bill language to authorize the change.



Proposes to Sell \$655 Million in School Bonds in 2017-18

- Of this total, \$594 million is associated with Proposition 51 bond authority and the remaining \$61 million is associated with prior bond authority.
- Sale of bonds would be contingent on the state adopting the Governor's proposals to modify district audit requirements.
- The Governor proposes no changes to staffing levels at relevant state agencies.



Audit Requirements— Assessment and Recommendation



Recent Report Cites Concerns Over OPSC Audits

- In a September 2015 review of OPSC's audit practices, the Department of Finance's Office of State Audits and Evaluations (OSAE) found that \$3 billion (41 percent) of funding from the state's last school bond had not been audited to date.
- The OSAE also found that OPSC does not conduct site visits to verify actual construction or purchases.
- Based on a sample of unaudited expenditures, OSAE estimated 1 percent of bond funds were spent on ineligible items.



Recommend Adopting Governor's Audit Proposal

- Ensures all expenditures under the State Facility Program are audited while building upon other state efforts to streamline districts' administrative work.



Bond Sales—Assessment



State Typically Times Bond Sales to Match Project Schedules

- To minimize interest payments, the state typically sizes bond sales to match the amount of funding required for “shovel ready” projects.
- State bond sales are linked indirectly to the volume of applications submitted to OPSC and the speed with which OPSC reviews them.



Governor’s Proposal Insufficient to Fund All Facility Applications

- Though the Governor’s \$655 million proposal would clear the \$370 million in already approved school projects awaiting funding, only \$285 million would be available to address the remaining \$2 billion in projects on the acknowledged list.
- The OPSC reported receiving \$158 million in new applications in the first two months after Proposition 51 was approved. If OPSC continued to receive new applications at this pace, absent bond funding the backlog of projects on the acknowledged list would grow to \$3.1 billion by January 2018.



Bond Sales—Assessment

(Continued)

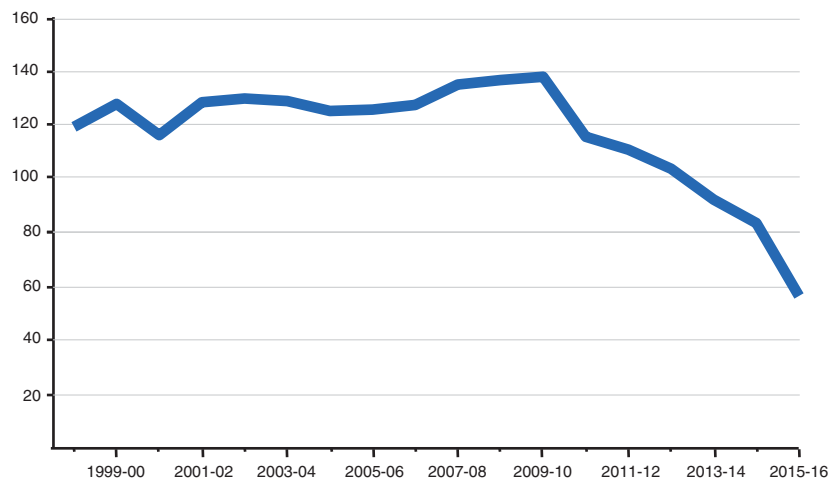


No Staffing Analysis to Support Proposal

- Beginning in 2009-10, OPSC staffing levels began to decline as funding for the program tapered off. Staffing levels are currently half the 2009-10 level.
- The administration claims that its bond sales proposal is based on OPSC's ability to process applications with its current staffing level. It has provided no staffing analysis to support this claim.

Staffing Level at Historic Low

Office of Public School Construction Personnel Years





Bond Sales—Recommendations



Recommend Reconsidering Level of Bond Sales and Adjusting OPSC Staff Level Accordingly

- Legislature could determine the level of bond sales in 2017-18 based upon the backlog of school facility projects and debt service costs.
- Once the Legislature determines the appropriate level of bond sales, we recommend it work with OPSC to identify the staffing level required to process a corresponding amount of project applications in 2017-18 (after funding already approved project applications).