April 1, 1999

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Connie Lemus
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Election Code Section 9005, we have reviewed the proposed initiative measure entitled "The Majority Rule Amendment for Smaller Classes, Safer Schools and Financial Accountability" (File No. SA 1999 RF 0003). The measure amends the State Constitution to allow any school district, county office of education, or community college district (K-14 jurisdictions) to incur bond debt if such debt has been approved by a majority vote of the voters in the district or county.

## BACKGROUND

The Constitution currently limits the amount of any ad valorem tax on real property to 1 percent of the full cash value of the property. This amount can be higher to pay for any indebtedness approved by the voters in the local jurisdiction prior to July 1, 1978, and certain bonded indebtedness approved by two-thirds of the voters voting on a local proposition on or after July 1, 1978. An exception to this provision is provided for indebtedness to repair or replace public school buildings that are structurally unsafe for school purposes, in which case a majority vote of the voters in the school district is needed.

***Recent Local School District Bond Elections.*** Since 1986, voters in local K-12 school jurisdictions have approved over $14 billion of bonded indebtedness to repair, renovate, expand, and construct new school facilities. During the same period, a majority, but less than two-thirds, of voters voted in favor of over $13 billion of proposed bond issues for school facilities. Thus, these bond issues were not approved. We do not have similar data at this time for community college districts.

***State Funding Practice.*** For K-12 public education facilities, the current state funding program assumes that, for state-approved projects, the state will fund 50 percent of the cost of new schools and 80 percent of the cost to rehabilitate existing schools. In certain hardship cases, the state will pay 100 percent of the cost of these projects. In the area of community colleges, the state funds 100 percent of the cost of state-approved projects. State funding has primarily been contingent on the availability of state general obligation bonds to finance these K-14 projects. Since 1986, the statewide voters have approved over $17 billion in state general obligation bonds for K-14 school facilities.

## MAJOR PROVISIONS

The measure provides that K-14 jurisdictions could incur bonded indebtedness for the construction, reconstruction, rehabilitation, or replacement of K-14 school facilities if approved by a *majority* of the local jurisdiction voters. Under the measure, any such proposal submitted to the voters for approval must include: (1) a provision that the bond proceeds will be used only for school facilities purposes listed in the proposition and not for teacher and administrator salaries, school operating expenses, or any other purpose; (2) a list of specific school facilities projects to be funded and a requirement of an annual audit to ensure the proceeds have been spent only for the specific projects listed; and (3) a requirement for an annual audit of the bond proceeds until all the proceeds have been spent.

## FISCAL EFFECT

### Impacts on K-14 Jurisdictions

By making it easier to approve local school bonds, the measure would increase local debt service costs. The extent of these costs would depend primarily on the number of bond measures approved that otherwise would not have been approved. The magnitude of these costs on a statewide basis is unknown, but could easily be in the hundreds of millions of dollars annually after several years.

**Impacts on State Costs**

To the extent the reduced local voter-approval requirement authorized by the measure results in approval of more bond measures by voters in K-14 jurisdictions, there would be a reduction in the need for the state to provide funding for local school facilities. Thus, the state could experience similar savings in its debt service costs for school facilities.

However, several hundred of the school districts in California do not currently participate in the state school facilities program. To the extent the reduced local voter-approval requirement encourages those districts to participate in the state matching program, state funding pressures could increase, offsetting some of the savings in state debt service.

**SUMMARY OF FISCAL EFFECTS**

The measure would result in the following major fiscal impacts:

- Major annual increases in local debt service costs for K-14 facilities.
- Annual savings of potentially a similar amount in state debt service costs for K-14 facilities.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance