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April 15, 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 constitutional and statutory initiative measure entitled "The Majority Rule Act for Smaller Classes, Safer Schools and Financial Accountability" (File No. SA 1999 RF 0005).

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. The 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 similar 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. For 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.

Charter School Facilities. Current statutory law requires a school district in which a charter school operates to permit the charter school to use any unutilized facilities, provided the charter school assumes responsibility for facility maintenance.

MAJOR PROVISIONS

The constitutional amendments in the measure provide 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, independent performance audit to ensure the proceeds have been spent only for the specific projects listed; and (3) a requirement of an annual, independent financial audit until all of the proceeds have been expended for the school facilities projects.

The Education Code amendments require each district with a charter school to provide the school with facilities that are reasonably equivalent to those provided at other schools in the district, and near where the charter school wishes to locate. The district may charge the charter school a pro rata share of the district's facilities costs, and the district is not required to use unrestricted General Fund revenues to rent, buy, or lease facilities for charter school students.

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 magni-

tude of these costs on a statewide basis is unknown, but could easily be in the hundreds of millions of dollars annually after several years. There also would be an increase in local district costs to provide charter schools with appropriate facilities. The magnitude of these costs, which would be for both renovation and new facilities, is unknown.

Impacts on State Costs

To the extent the reduced local voter-approval requirement authorized by the measure results in an 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. Also, the need for districts to provide facilities for charter schools may increase district participation in the state matching program.

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 and annual savings of potentially a similar amount in state debt service costs.
- Unknown annual state and K-14 school costs for renovation and construction of facilities for charter schools.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance