Proposition 13

AB 48 (Chapter 530, Statutes of 2019), O'Donnell. Education finance: school facilities: Public Preschool, K-12, and College Health and Safety Bond Act of 2020.

Yes/No Statement

A **YES** vote on this measure means: The state could sell $15 billion in general obligation bonds to fund school, community college, and university facility projects. In addition, school districts and community college districts would be authorized to issue more local bonds, and school districts would have new limits on their ability to levy developer fees.

A **NO** vote on this measure means: The state could not sell $15 billion in general obligation bonds to fund education facility projects. The state also would not make changes to school districts' and community college districts' existing local borrowing limits or the existing rules for school districts to levy developer fees.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact

- Increased state costs to repay bonds estimated at about $740 million per year (including interest) over the next 35 years.
- Mixed effect on the amount of local bonds issued by school and community college districts and a likely reduction in the amount of developer fees collected by certain school districts going forward.

Summary of State Costs

New Borrowing	
Principal	$15 billion
Interest	11 billion
Total Estimated Cost	**$26 billion**
Payments	
Average annual cost	$740 million
Likely payment period	35 years
Source of payments	General Fund tax revenues

Ballot Label

Fiscal Impact: Increased state costs to repay bonds estimated at about $740 million per year (including interest) over the next 35 years.

BACKGROUND

California Provides Public Education to 9.2 Million Students. California provides public education spanning from preschool through the university level. About two-thirds of students are enrolled at the preschool, elementary, or secondary school levels. California currently has about 10,000 of these types of schools operated by 944 school districts. (About 1,300 of these schools are charter schools, which typically are approved by the nearest school district but operate somewhat independently.) The remaining one-third of students are enrolled in public colleges or universities. The California Community College (CCC) system consists of 115 campuses operated by 73 districts. The state has two public university systems—the California State University (CSU) and the University of California (UC). The CSU system has 23 campuses and the UC system has 10 campuses.

State Helps Cover the Cost of Public Education Facilities. Traditionally, the state helps cover the cost to construct or renovate academic facilities, including classrooms, science laboratories, and career technical education spaces (such as automotive workshops). New academic facilities typically are constructed when areas are growing in enrollment. Renovation (or modernization) projects typically are undertaken when a building's components (such as its electrical, plumbing, or heating and cooling systems) are old and become less reliable or a life-safety issue is identified (such as the need to remove mold or strengthen a building's ability to withstand an earthquake). Traditionally, the state has not funded preschool facilities, with school districts tending to fund these projects using local funding.

State Reviews Facility Requests. For school facility projects, school districts submit applications for state funding to the Office of Public School Construction. The office reviews the applications and then brings eligible applications to the State Allocation Board for approval on a first-come, first-served basis. For community colleges and universities, campuses submit proposals to their system offices. (The CCC system is overseen by the Board of Governors, the CSU system by the Board of Trustees, and the UC system by the Board of Regents.) Each system's governing board then compiles these campus requests and submits selected projects to the Legislature and Governor for review and approval.

State Has Rules for Sharing Project Costs With Schools. For school districts, the state traditionally covers a standard share of the cost of each approved facility project. Specifically, the state covers 50 percent of the cost of most new construction projects and 60 percent of the cost of most renovation projects. School districts are expected to cover remaining project costs using local funds, though school districts that have difficulty covering their local share may qualify for additional state funding. For community college districts and university campuses, the state also often shares project costs, though state law does not have standard share-of-cost requirements for them.

State Historically Has Used Bonds to Fund Education Facilities. The state typically uses general obligation bonds (a form of borrowing) to pay for its share of project costs. A majority of voters statewide must approve these bonds. Voters give the state permission to sell bonds to investors. The bonds provide the funding that the state uses for projects. The state then repays the investors, with interest, from the General Fund. (The General Fund is the state's main operating account, which gets its revenues primarily from personal income taxes, state sales and use taxes, and corporation taxes.) The state typically repays investors by making annual payments over a few decades. Bond repayment is guaranteed by the state's general taxing power. (For more information on the state's use of bonds, see "Overview of State Bond Debt" later in this guide.)

State Has Some Bond Authority Remaining but Much of It Has Been Committed. Figure 1 shows that from 2002 through 2016, voters approved four education facility bond measures that provided a total of $45 billion in state bond funding. Three of the bond measures provided funding for school and community college districts as well as universities, whereas one (Proposition 51 in 2016) funded only school and community college districts. Of the $45 billion in approved bond funding, the state already has sold bonds totaling $37.2 billion, with $7.8 billion not yet sold to investors. Virtually all of these unsold bonds are from remaining Proposition 51 funds. The state, however, already has received applications nearly in excess of the remaining Proposition 51 bond authority for school projects. (The state currently is processing these applications.) The state also has already committed about two-thirds of Proposition 51 bond funding for community college projects. (A lag typically exists from the time the state commits bond funding for projects to the time it sells the associated bond.) The state's current annual payment on previously sold education facility bonds is $2.9 billion.

Figure 1

Recent State General Obligation Bonds for Education
(In Billions)

		Authorized Amounts				
Year	Proposition	Schools	Community Colleges	California State University	University of California	Totals
2002	47	$11.4	$0.7	$0.5	$0.4	$13.1
2004	55	10.0	0.9	0.7	0.7	12.3
2006	1D	7.3	1.5	0.9	0.7	10.4
2016	51	7.0	2.0	—	—	9.0
Totals		**$35.7**	**$5.2**	**$2.1**	**$1.8**	**$44.8**

State Now Relies on University Bonds to Fund CSU and UC Projects. In 2013, the state developed a new way of funding university facility projects. Under the new way, the universities—rather than the state—issue bonds. Unlike state general obligation bonds, voters do not approve university bonds. The universities pay back the debt on their bonds using funding they receive from the state. This change was intended to give CSU and UC greater control over their facilities and encourage campuses to reduce projects costs. Since developing this new funding system, CSU and UC each have undertaken about $2 billion in university bond-funded facility projects. The universities currently make total annual payments of about $140 million for these projects.

Districts Typically Raise Their Local Share by Issuing Local Bonds. School and community college districts tend to cover their local share of project costs using local general obligation bonds. Districts must get at least 55 percent of their voters to approve the sale of local general obligation bonds. Since 2002, voters have approved $154 billion in local general obligation bonds for school and community college facility projects.

State Law Places Limits on Local Borrowing. State law limits the total amount of local bonds that school and community college districts may issue. The limits are based on the assessed value of property within the district. Elementary and high school districts may issue bonds equal to 1.25 percent of their assessed property value. For unified school districts and community college districts, the limit is higher—2.5 percent—if the districts comply with certain other borrowing conditions. School districts that are unable to raise at least $5 million through local bonds under these limits may apply for additional state funding. School districts also may seek waivers from the state to exceed these caps. Since 2010, 7 percent of school districts have received these waivers.

School Districts Also Raise Local Funds From Developer Fees. Unlike community colleges and universities, school districts can raise funds for their facilities by assessing one-time fees on residential, commercial, and industrial developments. For example, a school district can charge a fee to a developer of a new housing community if the district can show that the new development will bring new students into the district. The exact amount that school districts can charge is based on rules specified in state law. Districts use the resulting revenue to help cover the cost of constructing new schools within that area. Since 2002, approximately 90 percent of school districts have raised some revenue from developer fees. During this time, school districts have raised a total of about $10 billion from these fees. Though developer fee revenue makes up a small portion (about 5 percent) of overall funding for school facilities, these fees can contribute up to half of construction costs for certain projects.

PROPOSAL

Proposes Bond Funding for Public Education Facilities. As Figure 2 shows, this measure allows the state to sell general obligation bonds totaling $15 billion—of which $9 billion is for public schools and $6 billion is for higher education facilities. The funding for school facilities is designated for four specific types of projects: renovation, new construction, charter schools, and career technical education facilities. School districts could seek some of the bond funding for their preschool facilities. The higher education funding is spread evenly among CCC, CSU, and UC. The measure is linked to legislation that makes several changes to the rules governing public education facility projects (described below). If the measure passes, these changes will go into effect.

Figure 2

Uses of Proposed Bond Funds

(In Billions)

	Amount
Public School Facilities	
Renovation	$5.2[a,b]
New construction	2.8[a]
Career technical education facilities	0.5
Charter school facilities	0.5
Total	**$9.0**
Public Higher Education Facilities	
Community college facilities	$2.0
California State University facilities	2.0
University of California facilities	2.0[c]
Total	**$6.0**
Grand Total	**$15.0[d]**

[a] Of this amount, up to 10 percent would be reserved for school districts with 2,500 or fewer students.
[b] Of this amount, $150 million would be reserved for testing and treating lead in water at schools.
[c] Some of this amount could be used for facilities at Hastings College of the Law, which is affiliated with the University of California.
[d] Up to 5 percent of bond funding may be used for administrative purposes.

Modifies Facility Rules for Schools. If the measure passes, three notable changes would be made to the rules for school facilities. First, the state's existing share of project costs (50 percent for new construction and 60 percent for renovation) would be replaced with a sliding scale. Under the sliding scale, school districts would qualify for state funding equal to between 50 percent and 55 percent of costs for new construction projects and between 60 percent and 65 percent for renovation projects. The higher state share would be for districts that have less capacity to raise local funds and enroll higher shares of low-income students, foster youth, and English learners. Second, the state would replace its existing first-come, first-served approach for reviewing applications with new rules. The new rules set forth certain prioritization categories. Health and life-safety projects would receive highest priority, followed by applications submitted by districts that have difficulty raising their local share and projects that test for and address lead in water at school sites, among other categories. Within each of these priority categories, applications would be further prioritized if districts have an agreement to use unionized construction labor. The third change is that a school district would be required to submit a five-year facility master plan as a condition of receiving bond funding.

Establishes New Expectations for Selection of University Projects. The state also would use new rules for prioritizing CSU and UC projects. To qualify for state bond funds, the CSU Board of Trustees and UC Board of Regents would be required to prioritize projects that address life-safety and certain other deficiencies with existing facilities. University campuses also would be required to develop five-year plans to expand affordable housing options for their students. The system boards would be required to consider these housing plans as an additional factor in prioritizing among campuses' facility projects.

Changes Local Funding Rules for Districts. The state also would make three key changes relating to school districts' and community college districts' local revenue-raising capacity. First, districts would be allowed to issue a higher amount of local general obligation bonds. Specifically, for elementary and high school districts, the limit would be raised from 1.25 percent to 2 percent of assessed property value. For unified school districts and community college districts, the limit would be raised from 2.5 percent to 4 percent of assessed property value. Second, school districts unable to raise $15 million under these new limits (up from the existing $5 million threshold) would be able to apply for additional state funding. Third, the state would establish new limits on developer fees. Specifically, school districts would be prohibited from assessing developer fees on multifamily residential developments (such as apartment complexes) located within a half-mile of a major transit stop (such as a light rail station). For all other multifamily residential developments, currently allowable developer fee levels would be reduced by 20 percent moving forward. These limitations would be in place until January 1, 2026.

FISCAL EFFECTS

Measure Would Increase State Costs to Repay Bonds. This measure would allow the state to borrow $15 billion by selling general obligation bonds. The state would pay off the bonds, with interest, from the General Fund. The cost of these bonds would depend on various factors, such as the interest rates on the bonds when sold and the time period over which they are repaid. We estimate that the cost to pay off the bonds would total $26 billion—$15 billion for the principal plus $11 billion for the interest. The state would pay off the bonds by making annual payments of **about $740 million per year for 35 years**. This amount is about one-half of 1 percent of the state's current General Fund budget.

Uncertain How Measure Would Affect University Facilities. For CSU and UC projects, the measure's effect would depend upon future decisions. If the state provided funding for university bonds in addition to the proposed state bond, then more CSU and UC projects would be undertaken and state costs would be higher than estimated above. Alternatively, if the proposed state bond were used instead of university bonds, then state costs would not be higher than estimated above.

Measure Would Impact Districts in Various Ways. Many school and community college districts could undertake more facility projects because of the additional state bond funding available and the additional capacity to issue local bonds. Other districts could decide to undertake the same number of facility projects as otherwise planned but at lower local cost (accessing the available state bond funding but not increasing local borrowing). A few school districts, primarily those affected by the new limits on developer fees, might undertake fewer projects.