LAO

PROPOSITION 2

Authorizes Bonds for Public School and Community College Facilities. Legislative Statute.

ANALYSIS OF MEASURE

BACKGROUND

California Has Many Public Schools and Community Colleges. Currently, there are about 10,000 public schools statewide (including about 1,300 charter schools). These schools serve elementary through high school students. Local school districts govern most of these public schools. California also has 115 local community colleges that offer associate degrees and other programs for adults. Local community college districts govern these colleges. School and community college districts usually build new facilities when they are growing in enrollment and need additional space. They renovate existing facilities when those facilities are old or unsafe.

State and Districts Usually Split Education Facility Costs. For public school districts, the state usually pays 50 percent of the cost of new construction projects and 60 percent of the cost of renovation projects. School districts are expected to pay remaining project costs using local funds. The state also often shares the cost of new construction and renovation projects with community college districts. Though the share of costs varies among projects, the state commonly pays about half of the cost, with community college districts paying the rest using local funds.

State Mainly Uses Bonds to Pay Its Share of Costs. Bonds are a way that the state borrows money and then repays the money plus interest over time. For more information about bonds, see "Overview of State Bond Debt" later in this guide. Over the past 20 years, the bulk of state facility funding for schools and community colleges has come from voter-approved bonds (a total of $31.8 billion). Recently, the state provided an additional $4.6 billion in other funding for school and community college facilities. Almost all of this funding has already been awarded for specific projects.

Districts Usually Pay Their Share of Costs Using Local Bonds. School and community college districts tend to pay their share of project costs using local bonds. Districts must get at least 55 percent of their voters to approve the sale of local bonds. State law limits the total amount of local bonds that school and community college districts may issue. These limits are based on the total assessed property value within the district. School districts that are unable to raise at least $5 million under these limits may apply for additional state funding. Over the past 20 years, voters approved $181 billion in local bonds for public school and community college facility projects.

PROPOSAL

New Bond for Public School and Community College Facilities. Proposition 2 allows the state to sell a $10 billion bond for public school and community college facilities. As Figure 1 shows, the $8.5 billion for public schools (or 85 percent of the total bond amount) is split among four types of facility projects. For new construction and renovation projects, school districts would apply for and be awarded funding mainly on a first-come, first-served basis. The state would award the career technical education and charter school funds through a competitive application process. A small portion of new construction and renovation funds must be set aside for small school districts. Unlike for public schools, the $1.5 billion for community colleges (or 15 percent of the total bond amount) is not split in a prescribed way among specific types of projects. Community college bond funds may be used for any mix of new buildings, renovations, land purchases, and equipment. Community colleges would prepare a plan listing their statewide project priorities. The Governor and the Legislature would select specific projects to fund. Proposition 2 requires districts to complete certain tasks to help ensure bond funds are spent as intended.

Figure 1

Uses of Proposed Bond Funds

(In Billions)

Public School Facilities	**$8.5**
Renovation of existing buildings	$4.0
New construction (including buying land)	3.3
Facilities for career technical education programs	0.6
Charter schools	0.6
Community College Facilities	**$1.5**
Total	**$10.0**

Some Renovation Funding Available for Certain Types of School Projects. Proposition 2 allows up to $115 million in renovation funds to be used for reducing lead levels in water at public school sites. Proposition 2 also allows school districts to receive extra renovation funding to build a new classroom or renovate an existing classroom that would be used for transitional kindergarten. (Beginning with the 2025-26 school year, all four-year olds will be eligible for a year of transitional kindergarten before entering kindergarten.) In certain cases, school districts also could receive extra renovation funding to expand or build a new gymnasium, multipurpose room, library, or school kitchen.

Increases State Share of Costs for Certain School Districts. For some school districts, Proposition 2 increases the state's share of new construction project costs from 50 percent to as much as 55 percent. Proposition 2 also increases the state's share of renovation project costs from 60 percent to as much as 65 percent for these school districts. In general, the state would pay a higher share of project costs for school districts that have lower assessed property values and have a higher share of their students who are low income, English learners, or foster youth.

Allows More School Districts to Apply for Additional State Funding. Proposition 2 allows school districts that are unable to raise at least $15 million from local bonds (up from $5 million) to apply for additional state funding. This amount would increase by inflation in future years.

Fiscal Effects

Increased State Costs of About $500 Million Each Year for 35 Years to Repay the Bond. The estimated cost to repay the bond would be **about $500 million each year (annually) over a 35-year period**. Payments would be made from the state General Fund. (The General Fund is the account the state uses to pay for most public services, including education, health care, and prisons.) This would be less than one-half of 1 percent of the state's total General Fund budget. Since the state has to pay interest on the money it borrows, the total cost of the bond would be about 10 percent more (after adjusting for inflation) than if the state paid up front with money it already has.

Unclear Effect on Local Costs Statewide. The availability of state bond funds could affect some districts' local costs. For example, some districts could respond by seeking new local bonds to help them meet project matching requirements. These districts would see an increase in their local costs. In contrast, other districts could respond by borrowing less because the state funds could pay costs districts otherwise would have covered. These districts would see a decrease in their local costs. Overall, the effect on local costs statewide is unclear.

YES/NO STATEMENT

A **YES** vote on this measure means: The state could borrow $10 billion to build new or renovate existing public school and community college facilities.

A **NO** vote on this measure means: The state could not borrow $10 billion to build new or renovate existing public school and community college facilities.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

- Increased state costs of about $500 million annually for 35 years to repay the bond.

State Bond Cost Estimate

Amount borrowed	$10 billion
Average repayment cost	$500 million per year over 35 years
Source of repayment	General tax revenue

BALLOT LABEL

Fiscal Impact: Increased state costs of about $500 million annually for 35 years to repay the bond.