

Evaluating the Governor's Education Bond Proposal

LEGISLATIVE ANALYST'S OFFICE

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Recent History of State K-12 School Bonds

1998 Through 2004 (In Millions)

	1998 Prop 1A	2000 Prop 1A	2002 Prop 47	2004 Prop 55	Totals
New construction	\$1,350	\$1,550	\$6,236	\$4,960	\$14,096
Modernization	800	1,300	3,294	2,250	7,644
Hardship	500	500	—	—	1,000
Critically overcrowded	700	—	1,700	2,440	4,840
Charter schools	—	—	100	300	400
Joint use	—	—	50	50	100
Energy	—	—	20	—	20
Totals	\$3,350	\$3,350	\$11,400	\$10,000	\$28,100

- State voters have passed \$28.1 billion in K-12 bonds since 1998.
- One-half of these funds have gone to new construction, typically matched by local districts dollar-for-dollar.
- One-fourth of funds went to modernization, which is funded 60 percent by the state and 40 percent by local districts .



Current K-12 State Bonds Available and Projects in the Pipeline

(In Millions)
As of December 15, 2005

Funds Available^a	
New construction	\$4,602
Modernization	601
Total	\$5,203
Applications Awaiting Funding	
New construction	\$1,128
Modernization	626
Total	\$1,754
Difference	
New construction	\$3,474
Modernization	-25
Total	\$3,449
^a Some additional bond funds are available for specific uses including critically overcrowded, joint use, and charter schools.	

- Based on Office of Public School Construction (OPSC) information, \$5.5 billion of K-12 bond funds were uncommitted as of December 2005. There are currently \$1.8 billion in projects in the State Allocation Board process. Even if all these projects were funded, \$3.4 billion would remain.
- The OPSC estimates that all modernization funds would be used by March 2006. If the Legislature chose to transfer funds from new construction to modernization, all of the bond funds could be used some time in 2007.



Local School Bonds

2000 Through 2005 (In Millions)

	Los Angeles Unified	Other K-12 Districts	Total K-12	Community Colleges	Totals
2000	—	\$1,082	\$1,082	—	\$1,082
2001	—	1,062	1,062	\$705	1,767
2002	\$3,350	6,368	9,718	5,324	15,042
2003	—	573	573	—	573
2004	3,870	3,842	7,712	3,755	11,467
2005	3,850	1,302	5,152	746	5,898
Totals	\$11,070	\$14,228	\$25,298	\$10,529	\$35,827

- Voters have passed \$35.8 billion in local bonds for K-12 and community college districts in the last five years.
- Los Angeles Unified voters have passed over \$11 billion in bonds since 2002.
- Passage of Proposition 39 on the statewide ballot in 2000 lowered the vote threshold for school bonds from two-thirds to 55 percent. This measure significantly increased the size and passage rate of local bonds.
- The high level of local bonds has created a demand for state bond funds to match local bonds.



Governor's Ten-Year Education Bond Proposal

2006 Through 2014 (In Millions)

Purpose	2006	2008	2010	2012	2014	Totals
K-12						
New construction ^a	\$1,700	\$3,000	\$2,000	\$1,700	\$1,000	\$9,400
Modernization ^a	3,300	1,200	2,164	2,368	3,068	12,100
Charters	1,000	—	468	46	466	2,400
Career tech	1,000	—	468	466	466	2,400
Subtotals	(\$7,000)	(\$4,200)	(\$5,100)	(\$5,000)	(\$5,000)	(\$26,300)
Higher Education						
UC	\$1,933 ^b	—	\$1,000 ^b	\$1,233	—	\$4,167
CSU	1,733	—	800	1,233	—	3,767
CCC	1,733	—	800	1,233	—	3,767
Subtotals	(\$5,400)	—	(\$2,600)	(\$3,700)	—	(\$11,700)
Totals	\$12,400	\$4,200	\$7,700	\$8,700	\$5,000	\$38,000

^a Up to 10 percent of these funds is to be used to create smaller learning environments.
^b \$200 million of this amount set aside for "telemedicine" projects.

- The Governor proposes to place \$38 billion in education bonds before the voters over the next decade—\$26.3 billion for K-12 and \$11.7 billion for higher education.
- Generally, the Governor's K-12 proposal maintains the existing process for eligibility, establishing costs, and other processes.
- Different from recent bonds, the Governor provides significant funding for career technical education and drastically increases funding for charter schools (each would be allocated \$1 billion in 2006 and \$2.4 billion over the entire period).



LAO Concerns With The Governor's Bond Proposal

- ***Out-Year Bond Needs Unclear.*** Governor proposes a ten-year plan without providing an assessment of education facility needs. (The Governor has not provided a statutorily required five-year infrastructure plan since taking office.) The ten-year plan does not appear to reflect underlying demographic shifts occurring in the state.
- ***Proposal Lacks Details on New Areas of Investment.*** To date, the administration has not been able to provide supporting documentation to justify the need for the proposed level of investment in career technical education, charter schools, and telemedicine.
- ***Higher Education Distribution Across Segments Lacks Basis.*** The plan allocates equal amounts to each of the three segments, as compared with directing capital funds annually to the highest priority projects.
- ***Legislature May Want to Consider Local Match Requirement for Community Colleges.*** After the passage of Proposition 39, which lowered the vote threshold for local K-14 bonds to 55 percent, community colleges can more easily access local matching funds.
- ***Expanded Year-Round Operations Could Meet a Portion of Higher Education's Needs.*** While the segments face various capital needs (particularly to renovate/replace existing facilities), expanded use of year-round operations could easily accommodate expected moderate enrollment growth over the decade.



Concerns With Administration's Methodology Of Estimating Local Facility Needs

■ ***The Administration's Approach:***

- Uses an average monthly cost for new construction (\$101 million) and modernization (\$83 million) for the last three years to define "need."
- Assumes that this level of need continues for the next ten years, and adjusts for inflation (3.5 percent annually).
- Results in \$23 billion in need over the next ten years.

■ ***Does Not Reflect Recent State and Local Investments in Facilities.*** Because the state and locals may have underinvested in school facilities in the early-and mid-1990s, there has been large demand for facilities funding. Taking into account state investments and local investments since the passage of Proposition 39, California may have started to catch up with these facilities requirements.

■ ***Does Not Reflect Demographic Changes.*** A majority of districts are facing declining enrollment for the next several years. The slow growth in enrollment will reduce the demand for new construction in much of the state.

■ ***May Underestimate Inflation Factor.*** In recent years, the cost of construction has increased in excess of 3.5 percent annually. This trend may continue into the future.



Estimates of Bond Needs Based on OPSC Information

Number of Unhoused Students

	New Construction	Modernization
1999	395,641	306,521
2000	201,088	359,170
2001	86,343	3,983
2002	49,702	17,809
2003	22,075	163,335
2004	20,938	137,269
2005	5,665	106,148
Totals	781,452	1,094,235

Source: OPSC estimates.

- School districts establish eligibility for facilities funding based on the number of “unhoused” students. Statute requires districts to use a complicated “cohort survival method” to determine how many students will be unhoused over a five-year period.
- Current OPSC data show that districts are eligible for new construction based on almost 800,000 students and for modernization based on 1.1 million students. The OPSC estimates that the cost to fund these projects to be \$11 billion for new construction and \$3.6 billion for modernization.
- However, these estimates are based on outdated information for many districts. Districts are only required to update their eligibility when they apply for new bond funds. If they have not accessed new construction funds in the last several years, they have not updated their numbers. So, for many declining enrollment districts, this data may not reflect the current facility needs in the district. On the other hand, growth districts are likely to update their eligibility annually because it is a requirement for getting funding.