Rethinking How the State Funds School Facilities

Presented to:
Assembly Budget Subcommittee No. 2 on Education Finance
Hon. Kevin McCarty, Chair
Background

☑️ School Facilities Program Created in 1998

- New construction eligibility based on enrollment projections.
- Modernization eligibility based on age of building.
- Both programs require a local match. Financial hardship program pays the local match for school districts meeting certain criteria.
- Several facility grants targeted to specific state priorities, including promoting career technical education and energy-efficient buildings.

☑️ Tracking School Facilities Funding Since 1998

- State has authorized $35 billion in general obligation bonds. Virtually all state bond authority has been exhausted.
- School districts have authorized at least $75 billion in local general obligation bonds.
- School districts have levied $9.4 billion in developer fees.
Problems With Existing System

☑ Shortcomings With Current State Financing Mechanism

- Bonds issued periodically, even though facilities are an ongoing expense, with districts annually planning for their upkeep, repair, and eventual replacement.

- Periodic bond sales create uncertainty for school districts, making planning more difficult.

![Large Swings in State Bond Spending for School Facilities](chart)

*(In Billions)*
Financing System Allows Inequities Based on School District Property Wealth

- Districts with higher property wealth are able to raise more revenue than districts with lower property wealth.
- Financial hardship program only mitigates this problem to some extent.

Maximum Annual Tax Revenue Per Election Per Student

![Graph showing maximum annual tax revenue per election per student across different percentiles.](chart)

- Assumes all districts below statutory debt ceilings.
Problems With Existing System  

- First-Come, First-Served Approach Does Not Always Serve Greatest Need
  - Advantages for districts with dedicated facilities personnel or who hire consultants to apply for state funds.
  - State was sued over first-come, first-served approach in 2000. In response, the state set aside $450 million for certain urban districts and $1 billion in new construction funding for districts with the highest number of unhoused pupils. The state continued to award future new construction and modernization funds, however, on a first-come, first-served basis.

- Administrative and Programmatic Labyrinth Limits District Flexibility
  - School districts typically are required to work with four agencies for most projects and ten or more state agencies for more complicated projects.
  - Extensive regulations limit school districts’ ability to design and build facilities according to local priorities.

- Accountability System Not Optimal
  - Accountability system focuses only on tracking expenditures.
  - Lack of incentives for school districts to develop, monitor, and refine long-term facility plans.
Basic Design Elements of a New System

☑ Create Annual School Facilities Grant
  ■ Calculate the “expected facility cost” based on current building replacement value.
  ■ Determine minimum state share of expected facility cost.
  ■ Award grant funds annually on the basis of student attendance.

☑ Adjust Grant for Differences in Local Resources
  ■ Provide districts with low property wealth a larger state share.
  ■ Provide districts with high property wealth the minimum state share.

☑ Adjust Grant for Prior State Investments in School Facilities
  ■ State owes more than $50 billion on principal and interest for past school bonds.
  ■ Reduce grants for districts on whose behalf the state currently pays debt service.

☑ Provide One-Time Funds to Address Backlog of School Facilities Projects
  ■ Use one-time Proposition 98 funds. Consider allocating funds based on existing School Facility Program applications, a new competitive grant process, or a per-student basis.

☑ Require Five-Year School Facility Accountability Plans
  ■ Similar in concept to Local Control and Accountability Plans.
  ■ Require specific elements (such as a maintenance plan, enrollment projections, and a priority list of major capital projects) and require formal school board approval.