
What is the Best Method of Meeting the Long-Term Financing Needs for the Construction and Reconstruction of Local School Facilities?

Since the passage of Proposition 13 in 1978, the burden of providing funding for local school facilities construction and reconstruction has shifted to the state. In the intervening years, the voters have approved two statewide bond issues totaling \$950 million and the Legislature has appropriated a total of \$450 million in tidelands oil revenues for school facilities. Yet, despite these expenditures, the amount of state revenues available falls at least \$465 million short of meeting local demand for school facilities financing.

Given the limitations on state spending imposed by Article XIII B of the California Constitution (the state appropriations limit), it is not clear how long the state can continue to be the primary source of funds for school facilities financing. Moreover, we find that the current system for allocating state school facilities aid to local school districts is ill-equipped either to determine the extent of districts' needs for such funds or to assign priorities among districts.

For these reasons, we believe that the best long-term solution to financing the construction and reconstruction of local school facilities is to return the primary responsibility for raising revenues to the local school districts themselves. In this section, we discuss how this can be accomplished, while conforming to the principles of equity in school finance enunciated by the California Supreme Court in *Serrano v. Priest*.

Funding for School Construction

Pre-Proposition 13 Funding. Prior to the passage of Proposition 13, local school districts financed the construction of elementary and secondary school facilities either by issuing local school construction bonds, or by obtaining a loan from the state under the State School Building Aid program. In either case, district voters first had to approve the borrowing by a two-thirds vote.

Funds borrowed by the districts were repaid from property tax revenues. In order to provide adequate security for the bonds or loans, the district-borrower had to levy an additional property tax.

Proposition 13 eliminated the ability of local school districts to levy additional special property tax rates of the type previously used to pay off indebtedness. Consequently, school districts can no longer issue construction bonds or participate in the State School Building Aid program.

Post-Proposition 13 Funding. Because of this, the Legislature revised the State School Building Lease-Purchase Act so that districts could continue to receive state aid for financing needed school facilities. Under the revised act, the state no longer provides loans to school districts; instead, it provides "quasi-grants". Specifically, the state funds the construction of new school facilities and rents them for a nominal fee to local school districts under a long-term, lease-purchase agreement that calls for title to the facility to be transferred to the district no later than 40 years after the rental agreement is executed. In most cases, the rent paid to the state consists of \$1 per year, plus any interest earned on state funds deposited in the county's school lease-purchase fund. Because this amount usually is nominal in comparison to the amount of state aid provided, the state essentially is providing school districts with a grant for school construction, rather than a loan.

Allocation of Grants. The State Allocation Board (SAB) is the agency responsible for receiving applications for state funding from local school districts. Review and processing of an application, which can take up to five years, passes back and forth among four different state agencies (the SAB, the Office of State Architect, the Office of Local Assistance in the Department of General Services and the School Facilities Planning Unit in the Department of Education), with no single agency having overall responsibility. The SAB, however, is the agency which ultimately allocates the funds on a project-by-project basis to the local school districts.

Funding Sources. Funding for the State School Building Lease-Purchase Fund is provided through three major statutory appropriations, each of which is available for expenditure without regard to fiscal year. These fund sources, which are displayed in Table 54, are composed of:

- **School district "excess" repayments**—that is, the amount by which school district principal and interest payments on State School Building Aid loans exceed debt service requirements for state school construction bonds. These funds, estimated at \$93.9 million in the current year, are used principally to fund school district deferred maintenance projects. The balance of funds, if any, is used to fund new construction.

- **Tidelands oil revenues**—current law appropriates \$150 million of these revenues annually through 1988–89. These funds are used principally for new school construction. The Governor, however, is proposing to defer the 1986–87 appropriation until 1989–90. This would require a change in law.

- **Proceeds from bond sales**—the voters have authorized the state to raise funds for school facilities by approving the State School Building Lease-Purchase Bond Acts of 1982 (Proposition 1) and 1984 (Proposition 26). Proposition 1 of 1982 authorized the sale of \$500 million in bonds—\$350 million for the construction of new school facilities and \$150 million for reconstruction and rehabilitation of facilities constructed over 30 years ago. These funds have been fully allocated.

Proposition 26 of 1984 authorized the sale of \$450 million in additional bonds, of which at least \$250 million is available for construction of new school facilities. Of the total authorization, \$165 million has been apportioned to date, leaving \$285 million available for future apportionments. The SAB estimates that this balance will be fully apportioned during the current year.

Funding Authorized. The funding available from each of these sources for allocation by the SAB in the past, current and budget years is displayed in Table 54.

Table 54
K-12 Education
Revenues Authorized for School Facilities Aid °
Under Current Law
1984-85 through 1986-87
(dollars in millions)

| | <i>Actual</i> 1984-85 | <i>Est.</i> 1985-86 | <i>Est.</i> 1986-87 |
|---|--------------------------|------------------------|------------------------|
| State School Building Lease-Purchase Program (Construction and Reconstruction): | | | |
| Tidelands Oil Revenues..... | — | \$285.0 ^b | \$142.5 |
| State School Building Lease-Purchase Bond Act of 1982 (Proposition 1)..... | \$190.0 | — | — |
| State School Building Lease-Purchase Bond Act of 1984 (Proposition 26)..... | — | 450.0 ^c | — |
| School Building Aid Bonds (Ch 764/84)..... | — | — | 40.0 |
| Lease-Purchase Rental Revenues..... | 3.8 | 3.8 | 3.9 |
| Federal Funds ^d | — | 28.5 | — |
| Subtotals..... | \$193.8 | \$767.3 | \$186.4 |
| Deferred Maintenance (excess repayments) ^e | \$89.2 | \$93.9 | \$89.9 |
| Emergency Classroom Program ^f | 7.5 | 7.5 | 7.5 |
| Asbestos Abatement Program..... | — | 19.9 | — |
| Portable/Relocatable Classrooms..... | 5.2 | 2.8 | 2.9 |
| Federal Funds: ^g | | | |
| Child Care Facilities..... | — | 36.5 | — |
| Child Care Capital Outlay..... | — | 7.3 | — |
| Air Conditioning..... | — | 13.5 | — |
| Totals..... | \$295.7 | \$948.7 | \$286.7 |

^a This table illustrates only the revenue sources provided by current statutes. This is not a fund condition statement and, accordingly, does not include any beginning balances for each school facilities program.

^b Includes \$142.5 million which was not spent in 1984-85 and was carried over to 1985-86.

^c Assumes that all funds from Proposition 26 bonds will be committed in 1985-86.

^d Settlement funds to be received pursuant to Section 8(g) Outer Continental Shelf Lands Act.

^e School districts receive apportionments from the State School Deferred Maintenance Fund to match district expenditures up to one-half of 1 percent of the district's General Fund budget. The fund balance not used for deferred maintenance is transferred to the State School Building Lease-Purchase Fund.

^f Up to 5 percent of tidelands oil revenues to the State School Building Lease-Purchase Fund during fiscal years 1984-85 to 1988-89 may be used for the Emergency Classroom Program (pursuant to Section 6217f(2) of the Public Resources Code).

The table shows that, during the three-year period 1984-85 to 1986-87, approximately \$1.5 billion is authorized for commitment under the school facilities aid program. Of this amount, \$680 million results from statewide bond sales, \$450 million comes from tidelands oil revenues, \$273 million is from excess repayments, \$85 million is from the one-time expenditure of federal funds and \$42 million comes from other sources.

School Construction Need

There are no reliable estimates available of the *need* for school facilities funding on a statewide basis. Recognizing this problem, the Legislature enacted Ch 1680/84 (AB 2743), which directs the State Allocation Board to develop and maintain an automated school facilities inventory that can

(1) indicate the degree of facility utilization and (2) project school facilities needs five years in advance. Board staff indicate that a feasibility study for the automated school facilities inventory is underway. The entire system is expected to be complete and fully operational by July 1987.

Although the data needed to estimate the need for school facilities financing is not available, we can provide data on the volume of school facilities funding requests that are pending before the SAB. It is important to note, however, that statistics on funding requests are not necessarily valid indicators of need per se.

As of January 23, 1986, 339 applications from school districts were on file with the State Allocation Board, requesting \$902 million for *new* construction. Of this amount, \$825.3 million is for projects that are still in the planning stage, and the balance (\$76.7 million) is for projects awaiting final approval and construction. In addition, 901 applications were on file with the board requesting approximately \$798 million for *reconstruction* of school facilities. Of this amount, approximately \$274 million is for reconstruction projects that have been approved and are ready to be started.

Thus, districts with applications currently on file with the board are requesting \$1.7 billion for school facilities. In comparison, an estimated \$1.2 billion is authorized to be available in 1985–86 and 1986–87 to fund these requests. Consequently, even if no additional applications are filed and all available revenues are used, the SAB will not be able to fund projects estimated to cost \$465 million.

To the extent that (1) school districts file additional requests for aid with the SAB between January 23, 1986 and the end of 1986–87 and/or (2) the Legislature approves the Governor's proposal to defer the appropriation of \$150 million in tidelands oil revenues, the gap between available funds and the demand on those funds will widen. On the other hand, authorization of additional bond sales, such as Senate Bill 1133 (Bergeson) seeks, would narrow the gap.

Problems with the Current Process for Allocating Revenues

Our review identifies four major problems with the existing system for allocating state funds to local school districts.

The Process is Slow. *First*, it takes several years—and frequently as long as five years—to review, process and allocate funds for a single school construction project. Construction, which can take an additional one to two years, generally does not begin until the funds have been allocated. An allocation system with a lag period of up to seven years is neither an effective nor efficient solution for a school district with an identified need for a new or reconstructed facility.

No Priorities. *Second*, there are virtually no priorities for allocating the state funds, once a district's basic eligibility for state aid has been established. To qualify for *new* construction funds, districts are required to meet a minimum threshold of 10 percent overcrowding. For districts

meeting the threshold, however, funds are provided on a first-come first-served basis, without regard to need, ability to finance through other alternatives, or severity of problem.

Old, Inflexible Standards Used. *Third*, there appears to be universal dissatisfaction with the classroom utilization standards that, by regulation, the SAB requires local school districts building facilities with state funds to meet. These standards, which have not changed since 1955, do not reflect changes in facilities usage patterns resulting from educational changes (such as the proliferation of special-purpose, categorical programs) that have occurred over the last 30 years. Further, by having a single standard with which all schools must comply, local communities are unable to build the type of facility that best meets local needs.

Fragmented Responsibility. *Fourth*, with four state agencies involved with processing the applications, no single agency is responsible for shepherding an application through the entire system. Consequently, school districts are unable to track or expedite the progress of an application.

Alternative Method for Financing School Construction

We recommend that the Legislature enact legislation, contingent upon voter approval of ACA 55 on the June 1986 ballot, to establish a "guaranteed yield schedule" under which every school district levying a given tax rate to amortize school facilities bonds would be guaranteed the same minimum revenue yield per pupil housed.

Because current methods of funding school construction (1) fail to provide sufficient funds to meet district needs in a timely manner and (2) fail to distribute equitably the burden of paying for new school facilities, we recommended in both the *Analysis of the 1983-84 Budget Bill* and the *Analysis of the 1984-85 Budget Bill* that the option of raising funds through temporary property tax increases be reestablished for local school districts. We continue to recommend that this be done.

ACA 55. The Legislature has taken the first step towards restoring school districts' revenue-raising abilities by approving ACA 55. This measure, which will appear on the June 1986 ballot, provides that local governments may—with the approval of two-thirds of district voters—incur bonded indebtedness for site acquisition and capital outlay, and pay off the bonds by temporarily increasing the property tax rate.

One potential drawback of this proposal, however, is that it could violate the principles on which the Supreme Court's decision in the *Serrano v. Priest* case was based. This is a legitimate concern. School districts with considerable property tax wealth could raise large amounts for school facilities by imposing a very low tax rate, while school districts with less property tax wealth would not be able to raise sufficient funds even with a very high tax rate.

Companion Legislation for ACA 55 Needed. For this reason, we recommend that the Legislature take a second step in order to make the mechanism authorized by ACA 55 more equitable. Specifically, we recommend that the Legislature enact legislation, contingent upon voter approval of ACA 55, guaranteeing every school district a certain revenue yield from a given tax rate. The funding source for this guarantee would be the revenues from (1) school construction bonds issued by the state and (2) tidelands oil and gas operations.

How the Guarantee Works. In broad outline, this new funding mechanism would work as follows:

- A school district would submit information on its need for new school facilities to the SAB, which, in turn, would certify the accuracy of the district's estimates regarding the number of students to be housed in the new facility.
- The district would then consult a schedule showing the amount of revenue per pupil housed which it could raise from a given tax rate. This basic schedule would be the same for all districts throughout the state, even though the actual amount of revenue raised by each tax rate would vary considerably from place to place. Such a schedule could include "adjustment factors" to reflect local differences in the costs of site acquisition and construction.
- Based upon the cost of the facility per pupil housed, the district would choose a tax rate from the guarantee schedule and submit this rate to the local voters for their approval.
- If the voters approved the measure, the district then would be authorized to levy the new tax rate. If the revenues raised by the tax were less than the amount guaranteed by the state schedule, the state would make up the difference.

Advantages of Proposal. In short, the state school construction aid program would be changed from one that allocates grant funds to districts with no matching contribution required, to a program providing grants based on a *variable* matching rate. Under the new program, districts with a low property tax base would have a lower local matching requirement than districts with a high property tax base.

Specifically, under a guaranteed yield program such as we recommend, the ability of all school districts to raise a given amount of revenue for a given level of tax effort would be *equalized*. At the same time, the program would allow local discretion in determining the exact amount of revenue to be raised.

By carefully designing the guarantee schedule, the Legislature can provide strong fiscal incentives for school districts to construct facilities at a "standard" level of costs per pupil housed, while still allowing local com-

munities to tax themselves at somewhat higher rates in order to provide either more space per pupil or a higher quality of construction.

Sample Guaranteed Yield Schedule. Table 55 shows a sample guaranteed yield tax schedule that incorporates these features.

Table 55
Sample Guaranteed Yield Schedule

| <i>Tax Rate</i> <i>(Per \$100 of Assessed Value)</i> | <i>Guaranteed Yield per</i> <i>Pupil Housed</i> |
|---|--|
| \$0.00 | — |
| 0.01 | — |
| 0.02 | — |
| 0.03 | — |
| 0.04 | — |
| 0.05 | — |
| 0.06 | \$200 |
| 0.07 | 400 |
| 0.08 | 600 |
| 0.09 | 800 |
| 0.10 | 1,000 |
| 0.11 | 1,050 |
| 0.12 | 1,100 |
| 0.13 | 1,150 |
| 0.14 and above..... | 1,200 |

Under the sample schedule shown in the table, the voters in a school district would be required to levy an additional tax rate of at least \$0.06 per \$100 of assessed value in order to receive any state school facilities aid. If they did so, they would be guaranteed a total yield of at least \$200 per pupil housed. That is, the district would receive from the state the difference (if any) between (a) \$200 per pupil housed and (b) the amount of revenue actually raised by the \$0.06 rate. For every \$0.01 increase in the tax rate, the district's guaranteed yield would increase by \$200 per pupil housed—up to a level of \$1,000 per pupil housed (reached at a tax rate of \$0.10).

For tax rates above \$0.10, the marginal increase in guaranteed yield would be less—for every increase in the tax rate of \$0.01, the district's guaranteed yield would increase by only \$50 per pupil housed (up to a maximum of \$1,200 per pupil housed). At tax rates beyond \$0.14, the guaranteed yield would remain unchanged at \$1,200 per pupil housed.

Thus, school districts would have a strong fiscal incentive to construct their facilities at a cost of \$1,000 per pupil housed (where the overall state matching rate is greatest). At the same time, districts which chose to do so *could* construct facilities at a higher cost per pupil housed, but with a lower marginal state contribution. No school district, however, would receive state aid to construct a facility costing in excess of \$1,200 per pupil housed.

Examples Using Three Hypothetical Districts

Table 56 shows how the sample guaranteed yield schedule would work for three hypothetical school districts—a “poor” district, an “average” district, and a “wealthy” district—each needing to house 1,000 students. (In our proposal, school district wealth is measured by the district’s assessed value per pupil needing to be housed.) As the table shows, each district would be guaranteed the same *total* amount of revenues for a given tax rate. For any given tax rate, however, the “poor” district would have a larger share of its guarantee paid for by the state than would the “wealthy” district.

The following discussion illustrates the choices that these districts might face, and shows how their decisions could be influenced by the guaranteed yield schedule.

Table 56
Revenues Raised by Three Hypothetical School Districts Needing to House 1,000 Students Under a Sample Guaranteed Yield Schedule

| Tax Rate ^a | "Poor" District | | "Average" District | | "Wealthy" District | |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Local Contribution | State Contribution | Local Contribution | State Contribution | Local Contribution | State Contribution |
| \$0.01 | \$10,000 | — | \$25,000 | — | \$75,000 | — |
| 0.02 | 20,000 | — | 50,000 | — | 150,000 | — |
| 0.03 | 30,000 | — | 75,000 | — | 225,000 | — |
| 0.04 | 40,000 | — | 100,000 | — | 300,000 | — |
| 0.05 | 50,000 | — | 125,000 | — | 375,000 | — |
| 0.06 | 60,000 | \$140,000 | 150,000 | \$50,000 | 450,000 | — |
| 0.07 | 70,000 | 330,000 | 175,000 | 225,000 | 525,000 | — |
| 0.08 | 80,000 | 520,000 | 200,000 | 400,000 | 600,000 | — |
| 0.09 | 90,000 | 710,000 | 225,000 | 575,000 | 675,000 | \$125,000 |
| 0.10 | 100,000 | 900,000 | 250,000 | 750,000 | 750,000 | 250,000 |
| 0.11 | 110,000 | 940,000 | 275,000 | 775,000 | 825,000 | 225,000 |
| 0.12 | 120,000 | 980,000 | 300,000 | 800,000 | 900,000 | 200,000 |
| 0.13 | 130,000 | 1,020,000 | 325,000 | 825,000 | 975,000 | 175,000 |
| 0.14 | 140,000 | 1,060,000 | 350,000 | 850,000 | 1,050,000 | 150,000 |
| 0.15 | 150,000 | 1,050,000 | 375,000 | 825,000 | 1,125,000 | 75,000 |
| 0.16 | 160,000 | 1,040,000 | 400,000 | 800,000 | 1,200,000 | — |
| 0.17 | 170,000 | 1,030,000 | 425,000 | 775,000 | 1,275,000 | — |
| 0.18 | 180,000 | 1,020,000 | 450,000 | 750,000 | 1,350,000 | — |
| 0.19 | 190,000 | 1,010,000 | 475,000 | 725,000 | 1,425,000 | — |
| 0.20 | 200,000 | 1,000,000 | 500,000 | 700,000 | 1,500,000 | — |

^a Per \$100 of assessed value.

“Poor” School District. This district is considering two alternatives for housing its 1,000 students. First, it could construct an “adequate” facility at a cost of \$1 million. Second, it could construct a more spacious facility at a cost of \$1.2 million.

Consulting the state guaranteed yield schedule (see Table 56), the district’s school board finds that:

- A tax rate of \$0.10 per \$100 assessed value would be needed in order to raise \$1 million. If the voters approved this rate, the district would raise \$100,000 locally and would receive \$900,000 in state aid (a matching rate of 9 to 1).
- A tax rate of \$0.14 per \$100 of assessed value would be needed in order to raise \$1.2 million. If the voters approved this rate, the district would raise \$140,000 locally, and would receive \$1,060,000 in state aid (a state matching rate of roughly 7.6 to 1).

Knowing that the local community has strongly supported education in the past, the school board decides to try for the higher tax rate of \$0.14. The board believes the voters can be persuaded that the quality of the more expensive facility, plus the generous state matching rate, justifies the higher tax effort.

“Average” School District. This district is considering three alternatives. The first alternative, providing an “adequate” amount of space per student and standard quality of construction, costs \$800,000. The second alternative, providing more generous amounts of space per student, costs \$1 million. The third alternative, providing the greatest amount of space and the best quality of construction, costs \$1.2 million.

Consulting the state guaranteed yield schedule, this school board finds that:

- A tax rate of \$0.09 per \$100 assessed value would be needed in order to raise \$800,000. If the voters approved this rate, the district would raise \$225,000 locally, and would receive \$575,000 in state aid (a state matching rate of roughly 2.6 to 1).
- A tax rate of \$0.10 per \$100 of assessed value would be needed in order to raise \$1 million. If the voters approved this rate, the district would raise \$250,000 locally, and would receive \$750,000 in state aid (a state matching rate of 3 to 1).
- A tax rate of \$0.14 per \$100 of assessed value would be needed in order to raise \$1.2 million. If the voters approved this rate, the district would raise \$350,000 locally, and would receive \$850,000 in state aid (a state matching rate of roughly 2.4 to 1).

Based on these alternatives, the school board decides to go for the most generous matching rate and proposes a tax increase of \$0.10 per \$100 of assessed value.

“Wealthy” School District. This district is considering only two alternatives. First, it could build a new facility at a cost of \$1 million. Second, it could reconstruct an existing facility at a cost of \$300,000.

Consulting the state guaranteed yield schedule, this school board finds that:

- A tax rate of \$0.10 per \$100 of assessed value would be needed in order

to raise \$1 million. If the voters approved this rate, the district would raise \$750,000 locally, and would receive \$250,000 in state aid (a state matching rate of roughly 0.3 to 1).

- A tax rate of \$0.04 per \$100 of assessed value would be needed in order to raise \$300,000. If the voters approved this rate, the district would raise the full \$300,000 locally, receiving no state aid.

Based on these alternatives, the school board believes that the state matching rate is not sufficiently generous to persuade local voters to tax themselves at the higher rate of \$0.10. Accordingly, the board proposes the lower rate of \$0.04 in order to reconstruct the existing facility.

Conclusion

In sum, the method we recommend for financing the construction and reconstruction of local school facilities offers the following advantages over the current system:

- It would increase incentives for each school district to choose the most cost-effective solutions for its school facilities needs, because the beneficiaries of school construction projects would be required to pay at least a portion of project costs.
- It would enhance local control by enabling local school districts to develop their projects based on local, rather than state, priorities.
- It would provide local school districts with an opportunity to raise substantial amounts of money for new construction within a shorter period of time, because the role of the state in reviewing and approving applications would be substantially reduced.
- It would provide districts with greater flexibility and the opportunity to conduct long-range planning, by allowing them either to construct new facilities or rehabilitate existing facilities, depending upon the costs and benefits of each alternative.
- It would make local school districts more accountable to those they serve, because voter approval would be necessary before bonds could be sold.