



Proposition 1D | Kindergarten – University Public Education Facilities Bond

Executive Summary

CSBA is in support of the statewide facilities bond known as Proposition 1D. This measure allows the state to sell \$10.4 billion of general obligation bonds for the construction and modernization of K-12 school facilities (\$7.3 billion) and higher education facilities (\$3.1 billion).

What is the background for this bond?

Through the School Facility Program (SFP), K-12 school districts apply for funding to buy land, construct new buildings and modernize existing buildings. A school district's allocation is based on a formula that considers the number of students a district expects to enroll who cannot be served in existing facility space. The SFP requires that the state and school districts share the cost of facilities. For new construction projects, the cost is shared equally by the state and school districts. For modernization projects, the state pays 60 percent and school districts pay 40 percent of the cost. If a school district faces unusual circumstances, however, it may apply for "hardship" funding from the state to offset its local share of costs.

Major funding sources. Funding for school facilities comes mostly from state and local general obligation bonds:

- **State general obligation bonds.** The state has funded the SFP by issuing general obligation bonds, like the measure on the ballot this year. Over the past decade, voters have approved a total of \$28.1 billion in state bonds for K-12 school facilities. Approximately \$3 billion of these funds remain to be spent on new construction projects.

- **Local general obligation bonds.** At the local level, school districts typically meet most of their matching requirement and other construction needs by issuing local general obligation bonds. These local bonds can be authorized with the approval of either 66.67 or 55 percent of the voters in the district. The bonds are repaid with local property tax revenue. Over the past 10 years, school districts have received voter approval to issue more than \$41 billion in local facility bonds.

Although school facilities currently are funded mostly from state and local general obligation bonds, school districts also receive funds from:

- **Developer fees.** State law allows school districts to impose developer fees on new construction. These fees are levied on new residential, commercial and industrial developments. Although these fees contribute a moderate amount of money statewide compared to general obligation bond proceeds, developer fees vary significantly by community depending on the amount of local development. In fast-growing areas, the fees can make notable contributions to K-12 school construction.
- **Special local bonds (known as "Mello-Roos" bonds).** School districts also may form special districts to sell bonds for school construction projects. (A special district generally does not encompass the entire school district.) The bonds, which require two-thirds voter approval, are paid off by property owners located within the special district. Over the past decade, Mello-Roos bonds have provided school districts with a total of \$3.7 billion in facility funding.



What is the potential impact on funding for K-12 facilities?

As shown in the chart below, the \$7.3 billion for K-12 school facilities is designated for seven types of projects. The underlying requirements and funding formulas for four of these project types (modernization, new construction, charter school facilities and joint-use projects) would be based on the requirements of the existing SFP. The other three types of projects (overcrowded schools, career technical facilities and environment-friendly projects) would be new components of the SFP and would require new laws and regulations.

Proposition 1D | Uses of bond funds

K-12	Amount (in millions)
Modernization projects	\$3,300 ^a
New construction projects	1,900 ^{a,b}
Severely overcrowded schools	1,000
Charter schools facilities	500
Career technical facilities	500
Environment-friendly projects	100
Joint-use projects	29

Subtotal, K-12 = (\$7,329)

Higher Education

Community Colleges	\$1,507
University of California	890 ^c
California State University	690

Subtotal, Higher Education = (\$3,087)

Total = \$10,416

a A total of up to \$200 million is available from these two amounts combined as incentive funding to promote the creation of small high schools.

b Up to \$200 million is available for earthquake-related retrofitting.

c \$200 million is available for medical education programs.

Modernization (\$3.3 billion). These monies would be used for the modernization of existing school facilities. School districts would be required to pay 40 percent of project costs (unless they qualify for state hardship funding).

New construction (\$1.9 billion). These monies would cover various costs associated with building new facilities, including site acquisition, project design, engineering, construction and inspection. Up to \$200 million of the \$1.9 billion would be available to retrofit facilities that are determined to be potentially unsafe during an earthquake. Districts would be required to pay 50 percent of new construction and earthquake-safety projects (unless they qualify for state hardship funding).

Relief grants for overcrowded schools (\$1 billion). As a condition of receiving one of these grants, school districts would be required to replace portable classrooms with newly constructed permanent classrooms, remove portable classrooms from overcrowded school sites and reduce the total number of portable classrooms within the district. As with other new construction projects, districts would be required to pay 50 percent of project costs. Under the program definition of overcrowded, roughly 1,800 schools (or 20 percent of all schools) would be eligible for funding.

Career technical education facilities (\$500 million). The measure funds a new facility program designed to enhance educational opportunities for students interested in technical careers. Grants would be provided to high schools and local agencies that have career technical programs. The grants would be allocated on a per square foot basis, with a maximum of \$3 million for each new construction project and \$1.5 million for each modernization project. For both types of grants, the required local contribution would be 50 percent of project costs. Given the program's requirements, approximately 500 school districts (or one-half of all districts) would be eligible for new construction and modernization grants. In addition, about 25 local agencies would be eligible for modernization grants.

Charter school facilities (\$500 million). These monies would be for new construction and modernization of charter school facilities. (Charter schools are public schools that are exempt from certain state requirements in exchange for adhering to local- or state-approved charter.) A 50 percent contribution from the district would be required.

Environment-friendly projects (\$100 million). These monies would be provided as special incentive grants to promote certain types of environment-friendly facilities. For example, districts could receive grant funding if their facilities included designs and materials that promoted the efficient use of energy and water, the maximum use of natural lighting, the use of recycled materials or the use of acoustics conducive to teaching and learning. The same local contributions would be required as for other new construction and modernization projects.

Joint-use projects (\$29 million). These monies would be available for both constructing new facilities and reconfiguring existing facilities for a joint-use purpose. Joint-use projects include gymnasiums, libraries, child care facilities, and teacher preparation facilities that are located at a school, but are used for joint school/community or K-12/higher education purposes. Under such arrangements, the school district and joint-use partner share the 50 percent local matching requirement.

What is the potential fiscal effect of the bond on state finances?

The costs of these bonds would depend on interest rates in effect at the time they are sold and the time period over which they are repaid. The state would likely make principal and interest payments from the state's General Fund over a period of about 30 years. If the bonds were sold at an average interest rate of 5 percent, the cost would be about \$20.3 billion to pay off both principal (\$10.4 billion) and interest (\$9.9 billion). The average payment would be about \$680 million per year.

What are the key issues identified by CSBA regarding the facilities bonds?

CSBA has identified three key issues surrounding the bonds, including the inadequacy of the grant, the process of funding charter school facilities and the time and costs associated with environmental reviews required by the California Environmental Quality Act.

Grant adequacy

CSBA is concerned that the amount of the bond is inadequate. Current law requires 50 percent share from the state. However, between the delay of funding of the state share by the State Allocation Board and the increase in construction costs during the intervening years, local districts ultimately pay as much as 70 percent of project costs, with the state paying only 30 percent. As a result, districts must redesign their plans, eliminate certain building characteristics or use alternative, less expensive

materials to cover their increased costs. To adequately meet statewide facilities needs, the per-student grant amount for new construction and modernization needs to be increased by at least 10 percent.

Charter schools

It is CSBA's position that charter school eligibility for state funding should not offset a school district's eligibility for facilities funding. This issue is concerning because charter school facilities can affect a district's School Facility Program eligibility with no input from the governing board or district. Further, the \$500 million earmarked for charter schools is excessive given the Proposition 39 requirement. CSBA would like to see any increase in funding for charter school facility funds be accompanied by relief from a district's Proposition 39 obligation.

California Environmental Quality Act (CEQA)

CSBA advocates for a streamlining of the CEQA process, in order to save time and money for school districts in the construction of school facilities. The environmental review process is costly and often duplicative of the reviews completed by local cities in their master plans. We agree that the environmental studies required by CEQA should be conducted. However, a school district should not have to duplicate the process for a potential school site if another jurisdiction has already completed an environmental study for its master plan. Conducting environmental studies often costs school districts upwards of \$250,000 to review a site that was already reviewed. By streamlining the CEQA process and promoting collaboration between city master plans and school site acquisition, school districts can save time and money in building schools.

Does the state need another facilities bond this year if there is still funding left over from the last bond?

It is true that there is funding still available from the last bond; however, the funding for modernization needs was exhausted in March 2006 and the funding for new construction will be exhausted in 2007. In addition, the Office of Public School Construction has stated that there is an unmet need of \$11.02 billion for construction of new facilities and \$3.55 billion for the modernization of school facilities.

Why do the grant amounts to districts need to be increased? Hasn't the State Allocation Board accomplished this in the past by providing an increase?

The SAB has increased the grant amounts previously. However, the grant amounts have not kept pace with the rising costs of construction at the local level. In some areas of California, from the time districts budget their project costs to the time the state grant is received, construction costs have doubled. As a result, the state's share of the costs of building or modernizing a school facility drops from 50 percent to approximately 30 percent. An increase in the grant amounts will help alleviate this problem.

Board considerations.

Boards should adopt the sample resolution in support of Proposition 1D, available on the CSBA Web site at <http://www.csba.org/co/Proposition1DResolution.pdf>

Resources.

Ballot Propositions California Legislative Analyst's Office. A nonpartisan summary and overview of Proposition 1D is available online at http://www.lao.ca.gov/ballot_source/propositions.aspx.

The California School Boards Association's Construction Management Task Force provides districts with policy briefs and fact sheets on construction related issues. District staff and Governing Boards should use this information as a resource when making local decisions. These documents are provided for informational purposes only and are not a substitute for legal advice from school districts legal counsel. Districts should obtain independent legal advice and review when necessary.

If you have any questions, please contact CSBA Policy Services at (800) 266-3382 or via e-mail policy@csba.org

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