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Rethinking How the State Funds School Facilities

LEGISLATIVE ANALYST'S OFFICE

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

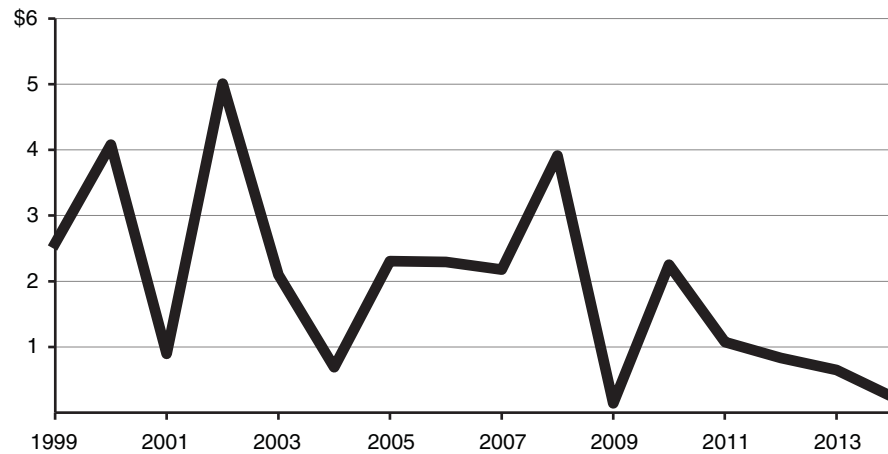


Shortcomings With Current State Financing Mechanism

- 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

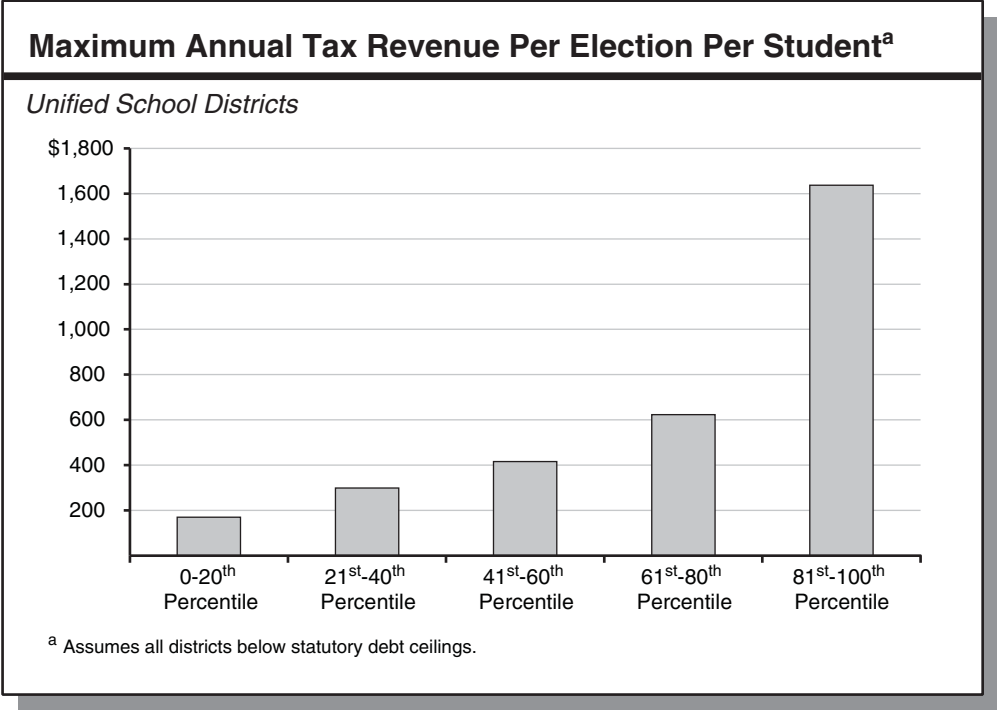
(In Billions)





Problems With Existing System *(Continued)*

- 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.





Problems With Existing System *(Continued)*

- 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.