

OVERCROWDED SCHOOL FACILITIES

DECEMBER 5, 1983

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

925 L STREET, SUITE 650

SACRAMENTO, CALIFORNIA 95814

STATEMENT TO THE ASSEMBLY EDUCATION COMMITTEE
HEARING ON OVERCROWDED SCHOOL FACILITIES

MADAME CHAIR AND MEMBERS:

YOU HAVE REQUESTED THAT WE PROVIDE YOU WITH INFORMATION ON THE FUNDING OUTLOOK FOR SCHOOL CONSTRUCTION IN 1984-85. IN RESPONSE TO THIS REQUEST, WE HAVE ORGANIZED OUR TESTIMONY AS FOLLOWS:

- RECENT FUNDING HISTORY,
- FUNDING NEEDS FOR SCHOOL CONSTRUCTION, AND
- FUNDING AND REVENUE OUTLOOK FOR 1984-85.

FUNDING HISTORY

PRIOR TO THE PASSAGE OF PROPOSITION 13 ON THE JUNE 1978 BALLOT, LOCAL SCHOOL DISTRICTS FINANCED THE CONSTRUCTION OF ELEMENTARY AND SECONDARY SCHOOL FACILITIES BY EITHER ISSUING SCHOOL CONSTRUCTION BONDS, OR OBTAINING A LOAN FROM THE STATE UNDER THE STATE SCHOOL BUILDING AID PROGRAM. IN EITHER CASE, DISTRICT VOTERS HAD TO APPROVE THE BORROWING BEFOREHAND.

FUNDS BORROWED FROM THE STATE OR PRIVATE SOURCES WERE TO BE REPAID FROM PROPERTY TAX REVENUES. GENERALLY, THIS MEANT THAT THE DISTRICT-BORROWER HAD TO LEVY AN ADDITIONAL PROPERTY TAX, IN ORDER TO PROVIDE ADEQUATE SECURITY FOR THE BONDS OR LOANS. PROPOSITION 13, HOWEVER, 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.

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 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 ONE DOLLAR PER YEAR, PLUS ANY INTEREST EARNED ON STATE FUNDS DEPOSITED IN THE COUNTY SCHOOL LEASE-PURCHASE FUND ON BEHALF OF THE DISTRICT. BECAUSE THIS AMOUNT IS USUALLY NOMINAL IN COMPARISON TO THE AMOUNT OF STATE AID PROVIDED, THE STATE ESSENTIALLY IS PROVIDING A GRANT FOR SCHOOL CONSTRUCTION, RATHER THAN A LOAN, TO SCHOOL DISTRICTS. SCHOOL DISTRICTS CONTRIBUTE EITHER 10 PERCENT OF A PROJECT'S COST IN THE FIRST YEAR, OR 1 PERCENT PER YEAR FOR 10 YEARS.

FUNDING FOR THE STATE SCHOOL BUILDING LEASE-PURCHASE FUND IS PROVIDED THROUGH THREE MAJOR STATUTORY APPROPRIATIONS, EACH OF WHICH IS AVAILABLE FOR EXPENDITURE IRRESPECTIVE OF FISCAL YEAR. THESE ARE:

- SCHOOL DISTRICT "EXCESS" REPAYMENTS--THAT IS, THE EXCESS OF SCHOOL DISTRICT PRINCIPAL AND INTEREST PAYMENTS ON STATE SCHOOL BUILDING AID LOANS OVER THE AMOUNT NEEDED FOR THE DEBT SERVICE OF STATE SCHOOL CONSTRUCTION BONDS. THESE ARE PRINCIPALLY USED TO FUND SCHOOL DISTRICT DEFERRED MAINTENANCE PROJECTS, WITH ANY REMAINING AMOUNT GOING TO FUND NEW CONSTRUCTION,

- A YEARLY \$200 MILLION ALLOCATION OF TIDELANDS OIL REVENUES THROUGH 1984-85, WHICH IS USED PRINCIPALLY FOR NEW SCHOOL CONSTRUCTION, AND
- BOND REVENUES AUTHORIZED BY PROPOSITION 1 OF 1982, WHICH CAN BE USED FOR NEW SCHOOL CONSTRUCTION AND REHABILITATION OF EXISTING SCHOOL FACILITIES. OF THE \$500 MILLION IN BONDS AUTHORIZED BY PROPOSITION 1, A MINIMUM OF \$350 MILLION IS AVAILABLE FOR CONSTRUCTION OF NEW SCHOOL FACILITIES; \$200 MILLION HAS BEEN APPORTIONED TO DATE.

AS SHOWN IN TABLE 1 (ATTACHED), FROM 1981-82 THROUGH 1983-84, THE LEGISLATURE WITHHELD OVER 2/3 OF THE FUNDS WHICH EXISTING LAW HAD AUTHORIZED FOR SCHOOL CONSTRUCTION PURPOSES. OF \$1,334,342,000 CONTINUOUSLY APPROPRIATED FOR THESE THREE YEARS, ONLY \$396,050,000 (30 PERCENT) HAS BEEN MADE AVAILABLE TO FUND SCHOOL CONSTRUCTION. THE REMAINING \$938,292,000 WAS ALLOCATED INSTEAD TO THE GENERAL FUND TO BALANCE THE STATE'S BUDGET AND TO PROVIDE FUNDING FOR PROGRAMS WHICH THE LEGISLATURE DETERMINED TO HAVE A HIGHER PRIORITY.

SCHOOL CONSTRUCTION NEED

AS A RESULT OF THESE TWO DEVELOPMENTS--THE RESTRICTIONS PLACED ON SCHOOL DISTRICTS BY PROPOSITION 13 AND THE STATE'S RECENT BUDGET PROBLEMS --CALIFORNIA NOW FACES A LARGE BACKLOG OF DEMAND FOR SCHOOL CONSTRUCTION FUNDS.

IN ORDER TO ESTABLISH ELIGIBILITY FOR SCHOOL CONSTRUCTION FUNDS APPROPRIATED TO THE STATE ALLOCATION BOARD, SCHOOL DISTRICTS MUST DEMONSTRATE THAT THEY ARE EXPERIENCING OVERCROWDING AND THAT THEY ARE FULLY

UTILIZING ALL AVAILABLE FACILITIES. IN A VERY SMALL NUMBER OF CASES, DISTRICTS RECEIVE SCHOOL CONSTRUCTION FUNDS FROM THE STATE ALLOCATION BOARD FOR REASONS OTHER THAN OVERCROWDING--AS IN THE CASE OF COALINGA, FOR EXAMPLE, WHERE A SCHOOL WAS DESTROYED BY AN EARTHQUAKE.

AS OF NOVEMBER 16, 1983, SCHOOL DISTRICTS HAVE FILED APPLICATIONS WITH THE STATE ALLOCATION BOARD FOR SCHOOL CONSTRUCTION FUNDS THAT EXCEED--BY \$454,575,033--THE AMOUNT APPORTIONED BY THE STATE ALLOCATION BOARD. THE UNFUNDED AMOUNT INCLUDES \$132,840,182 FOR SCHOOLS AWAITING FINAL APPROVAL AND FUNDS TO BEGIN CONSTRUCTION, AND \$321,734,851 IN ESTIMATED COSTS FOR PROJECTS THAT ARE STILL IN THE PLANNING STAGE.

SOME \$75 MILLION FROM PROPOSITION 1 BOND SALES IS ANTICIPATED WITHIN THE NEXT FEW MONTHS, AND THE STATE ALLOCATION BOARD HOPES TO MAKE THESE FUNDS AVAILABLE FOR APPORTIONMENTS TO DISTRICTS FOR PLANNING AND CONSTRUCTION EARLY IN 1984. IN ADDITION, \$319,529,883 IN CONSTRUCTION FUNDS HAS BEEN APPORTIONED IN THE PAST THREE YEARS, AND MANY DISTRICTS HAVE CONSTRUCTION NOW UNDERWAY.

BASED ON SURVEY INFORMATION, THE STATE ALLOCATION BOARD HAS INDICATED THAT ONLY 250 OF THE 700 SCHOOL DISTRICTS NEEDING NEW FACILITIES HAVE FILED APPLICATIONS WITH THE BOARD. AS NOTED, THE DISTRICTS WHICH HAVE FILED APPLICATIONS HAVE DEMONSTRATED A TOTAL NEED FOR OVER \$770 MILLION (INCLUDING \$454 MILLION THAT REMAINS UNFUNDED AND \$320 MILLION ALREADY APPORTIONED). ASSUMING AN EQUAL AMOUNT OF NEED IN DISTRICTS WHICH HAVE NOT FILED APPLICATIONS, THE STATE ALLOCATION BOARD ESTIMATES AN ADDITIONAL NEED FOR \$750 MILLION TO FUND CONSTRUCTION IN THOSE DISTRICTS. ACTUAL NEED COULD BE SUBSTANTIALLY LOWER IF ALL OF THOSE DISTRICTS WITH THE GREATEST

NEED HAVE ALREADY FILED APPLICATIONS. HOWEVER, SOME DISTRICTS WITH SUBSTANTIAL OVERCROWDING PROBLEMS HAVE NOT YET APPLIED FOR FUNDS BECAUSE THEY LACK SUFFICIENT PRIORITY POINTS TO RECEIVE FUNDING OR CHOOSE TO AVOID INCURRING THE ADMINISTRATIVE COSTS OF FILING AN APPLICATION. CONSEQUENTLY, IT IS NOT POSSIBLE TO DETERMINE ACCURATELY THE TOTAL AMOUNT OF FUNDING NEEDED FOR NEW SCHOOL CONSTRUCTION STATEWIDE.

FUNDING AND REVENUE OUTLOOK FOR 1984-85

IN 1984-85, \$200 MILLION IN TIDELANDS OIL REVENUES TRANSFERRED TO THE GENERAL FUND BY THE BUDGET ACT OF 1981 IS SCHEDULED TO BE REPAID TO THE LEASE-PURCHASE FUND. IN ADDITION, THE REMAINING \$175 MILLION IN PROPOSITION 1 BOND SALES WILL BE COMPLETED IN 1984-85, ALTHOUGH MUCH OF THIS AMOUNT MAY BE APPROPRIATED FOR REHABILITATION OF EXISTING SCHOOLS. THE PORTION OF EXCESS REPAYMENTS AVAILABLE TO FUND NEW CONSTRUCTION, HOWEVER, WILL BE REDUCED BY AN UNKNOWN AMOUNT IN ORDER TO PROVIDE INCENTIVE PAYMENTS TO SCHOOL DISTRICTS FOR THE UTILIZATION OF ALTERNATIVES TO NEW CONSTRUCTION. UNDER THE PROVISIONS OF SB 81, WHICH WAS SIGNED BY THE GOVERNOR IN SEPTEMBER OF THIS YEAR, ELIGIBLE SCHOOL DISTRICTS WILL RECEIVE AN AMOUNT EQUAL TO 1/2 OF THE STATE'S COST OF BORROWING MONEY TO FINANCE NEW CONSTRUCTION FOR EACH STUDENT WHO IS ACCOMMODATED BY SOME ALTERNATIVE MEANS, SUCH AS YEAR-ROUND SCHOOLS.

GENERAL FUND REVENUES IN 1984-85. AS NOTED, RECURRING BUDGETARY PROBLEMS IN RECENT YEARS HAVE CAUSED THE LEGISLATURE TO DIVERT FUNDING PREVIOUSLY EARMARKED FOR SCHOOL CONSTRUCTION TO OTHER, HIGHER PRIORITY NEEDS. WHETHER THIS WILL HAPPEN AGAIN IN 1984-85 WILL DEPEND ON GENERAL FUND REVENUES IN THE BUDGET YEAR, AS WELL AS ON THE AMOUNT OF CLAIMS ON STATE FUNDS WHICH WILL BE MADE BY OTHER COMPONENTS OF THE STATE BUDGET.

GIVEN WHAT WE KNOW ABOUT ECONOMIC CONDITIONS, EXPECTED REVENUES, AND EXISTING EXPENDITURE COMMITMENTS, WE ESTIMATE THAT THE AMOUNT OF UNRESTRICTED GENERAL FUND SURPLUS AVAILABLE AT THE END OF THE CURRENT YEAR (1983-84) WOULD BE \$444 MILLION. THIS ESTIMATE, HOWEVER, IS SUBJECT TO CHANGE AND COULD BE REDUCED CONSIDERABLY, FOR SEVERAL REASONS. FIRST, WE WILL PROBABLY NEED TO REVISE THIS ESTIMATE DOWNWARD WHEN THE DEPARTMENT OF FINANCE ISSUES ITS FINAL TALLY ON THE IMPACT OF LEGISLATION CHAPERED IN 1983. SECOND, WE HAVE IDENTIFIED OVER \$300 MILLION IN POTENTIAL EXPENDITURES BEYOND WHAT IS REFLECTED IN OUR ESTIMATES WHICH, IF THEY OCCUR, WOULD REDUCE THE END-OF-YEAR BALANCE WELL BELOW \$444 MILLION. AND, OF COURSE, THE END-OF-YEAR BALANCE WOULD BE REDUCED IN THE EVENT THE LEGISLATURE DECIDED TO PROVIDE ADDITIONAL FUNDS FOR THE COMMUNITY COLLEGES IN 1983-84. EVEN SO, THE GENERAL FUND WILL, IN ALL LIKELIHOOD, CARRY FORWARD A MODEST RESERVE FOR ECONOMIC UNCERTAINTIES INTO 1984-85. THE SIZE OF THE RESERVE WILL DEPEND ON LEGISLATIVE ACTIONS, COURT RULINGS, PROPERTY TAX COLLECTIONS AT THE LOCAL LEVEL, AND ECONOMIC EVENTS THAT CANNOT BE PREDICTED AT THIS TIME.

IT IS TOO EARLY FOR US TO MAKE A REVENUE ESTIMATE FOR 1984-85 IN WHICH YOU COULD PLACE MUCH CONFIDENCE. IN FACT, CONSIDERABLY MORE DATA ON CURRENT ECONOMIC CONDITIONS IS NEEDED BEFORE ANYBODY CAN MAKE SUCH A PREDICTION WITH MUCH CONFIDENCE.

WHAT WE CAN DO, HOWEVER, IS GIVE YOU A PREVIEW OF WHAT THE BUDGETARY PICTURE FOR 1984-85 WILL LOOK LIKE, BASED ON (1) SOME REASONABLE ASSUMPTIONS ABOUT THE PERFORMANCE OF THE STATE'S ECONOMY AND (2) A VERY ROUGH ESTIMATE OF BASELINE EXPENDITURES. (BY "BASELINE EXPENDITURES," WE

MEAN THE LEVEL OF EXPENDITURES NEEDED TO CONTINUE THE SERVICES THAT ARE BEING FUNDED BY THE STATE IN THE CURRENT YEAR--GENERALLY, THIS YEAR'S EXPENDITURES ADJUSTED TO COMPENSATE FOR CASELOAD CHANGES, INFLATION, AND NONRECURRING FACTORS--PLUS THOSE EXPENDITURES CALLED FOR BY EXISTING LAW.)

ASSUMPTIONS. GENERALLY, WE ASSUME THAT PERSONAL INCOME IN CALIFORNIA WILL GROW BY 9.5 PERCENT IN 1984 AND 8.5 PERCENT IN 1985, AND THAT INFLATION FACED BY CONSUMERS IN THESE TWO YEARS WILL AVERAGE ABOUT 5 PERCENT. FROM THESE ASSUMPTIONS, WE CAN DERIVE AN ESTIMATE OF REVENUES.

OUR ESTIMATE OF BASELINE EXPENDITURES ASSUMES:

- FULL FUNDING FOR THE EDUCATION REFORM AND FUNDING ACT OF 1983 (SB 813);
- A 5.9 PERCENT INCREASE IN AFDC AND SSI/SSP GRANTS;
- FULL FUNDING OF THE LATEST CASELOAD PROJECTIONS FOR CASH GRANTS, SOCIAL SERVICES, AND K-12 APPORTIONMENTS; AND
- A 7 PERCENT INCREASE FOR ALL DISCRETIONARY PROGRAMS, REFLECTING 5 PERCENT INFLATION AND 2 PERCENT POPULATION GROWTH.

THE FISCAL MARGIN PRODUCED BY OUR ASSUMPTIONS. WHEN THE REVENUES THAT WOULD BE PRODUCED BY THE ASSUMED LEVEL OF ECONOMIC ACTIVITY ARE COMPARED WITH BASELINE EXPENDITURES, WE FIND AN EXCESS OF REVENUES OVER EXPENDITURES AMOUNTING TO ABOUT \$1.2 BILLION IN 1984-85. CONSEQUENTLY, IF \$400 MILLION TO \$450 MILLION IN UNUSED FUNDS WERE CARRIED OVER FROM 1983-84 TO 1984-85, THE UNCOMMITTED BALANCE IN THE GENERAL FUND DURING THE BUDGET YEAR COULD BE AS HIGH AS \$1.6 BILLION. THIS IS THE FISCAL MARGIN THAT WOULD BE AVAILABLE TO THE LEGISLATURE IN WRITING A BUDGET FOR 1984-85.

TO DESCRIBE THIS FISCAL MARGIN AS A "SURPLUS," AS MANY HAVE DONE, IMPLIES THAT THESE FUNDS ARE IN EXCESS OF WHAT STATE GOVERNMENT NEEDS TO OPERATE IN 1984-85. THIS IS SIMPLY NOT SO.

OUR OFFICE HAS LONG ADVOCATED THAT THE LEGISLATURE MAINTAIN A RESERVE FOR ECONOMIC UNCERTAINTIES EQUAL TO 5 PERCENT OF GENERAL FUND EXPENDITURES. THUS, FROM THIS PERSPECTIVE, FULLY 3/4 (\$1.2 BILLION) OF THE FISCAL MARGIN THAT COULD DEVELOP IN 1984-85 WOULD BE NEEDED TO OPERATE STATE GOVERNMENT. EVEN A 3 PERCENT RESERVE WOULD REQUIRE THAT \$700 MILLION OF ANY EXCESS REVENUES BE SET ASIDE FOR CONTINGENCIES.

IN SHORT, A LARGE PORTION OF WHAT MIGHT APPEAR TO BE "SURPLUS" FUNDS IN 1984-85 DOES NOT REPRESENT A SURPLUS AT ALL, IN TERMS OF WHAT STATE GOVERNMENT NEEDS TO HAVE ON HAND.

NONETHELESS, IF OUR ASSUMPTIONS HOLD, THE LEGISLATURE WOULD HAVE AVAILABLE CONSIDERABLY MORE REVENUES IN 1984-85 THAN IT WOULD NEED TO (1) MAINTAIN CURRENT SERVICES, (2) FUND THE SECOND YEAR OF SB 813, AND (3) PROVIDE FOR A PRUDENT RESERVE. THIS WOULD BE THE FIRST TIME SINCE 1980-81 THAT YOU WOULD BE FACED WITH THIS HAPPY PROSPECT. INSTEAD OF HAVING TO REDUCE THE EXPENDITURE BASE, AS YOU HAVE HAD TO DO IN EACH OF THE LAST THREE YEARS, YOU WOULD BE IN A POSITION TO EITHER RESTORE CUTS PREVIOUSLY MADE--INCLUDING FUNDS FOR SCHOOL CONSTRUCTION--INITIATE NEW PROGRAMS OR PROVIDE ADDITIONAL TAX RELIEF.

TABLE 1
 REVENUES SOURCES FOR SCHOOL CONSTRUCTION^A
 (FIGURES DO NOT INCLUDE FUNDS FOR DEFERRED MAINTENANCE)
 (IN THOUSANDS)

	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>TOTALS 1981-82 TO 1983-84</u>
REVENUES AUTHORIZED FROM CONTINUOUS APPROPRIATIONS: EXCESS SCHOOL DISTRICT LOAN REPAYMENT CH 282/79 (AB 8) NEW CONSTRUCTION ONLY	--	\$18,892	\$21,260	\$40,152
CARRYOVER OF PRIOR YEAR EXCESS SCHOOL PAYMENTS	--	13,990	--	13,990
CARRYOVER OF PRIOR YEAR GENERAL FUND APPROPRIATION CH 288/80 (SB 1426)	\$208,000	--	--	208,000
TIDELANDS OF APPROPRIATION-- CH 899/80 (AB 2973)	200,000	200,000	200,000	600,000
CARRYOVER OF PRIOR YEAR TIDELANDS OIL APPROPRIATION CH 899/80 (AB 2973)	100,000	--	--	100,000
PROPOSITION 1 BOND SALES-- CH 410/82 (AB 3006)	--	125,000	200,000	325,000
REPAYMENT OF LOAN--CH 998/81 (AB 114)	--	47,200	--	47,200
SUBTOTALS	\$508,000	\$405,082	\$421,260	\$1,334,342
TRANSFERS AND LOANS:				
TRANSFER TO GENERAL FUND PER SECTION 19.91, BUDGET ACT OF 1981 ^B	-\$200,000	--	--	-\$200,000
TRANSFER TO GENERAL FUND --CH 207/82 (AB 884)	-200,000	--	--	-200,000
LOAN TO SAFCO AND ERF FUNDS--CH 998/81 (AB 114)	-47,200	--	--	-47,200
NONTRANSFER OF SCHOOL DISTRICT EXCESS REPAYMENTS-- SECTION 19.05, BUDGET ACT OF 1982	--	-\$18,892	--	-18,892
NONTRANSFER OF TIDELANDS OIL RESERVES--CH 327/82 (SB 1326)	--	-147,200	--	-147,200
TRANSFER TO GENERAL FUND-- CH 10X/83 (AB 28X)	--	-125,000	--	-125,000
NONTRANSFER OF TIDELANDS OIL RESERVES	--	--	-200,000	-200,000
SUBTOTALS	-\$447,200	-\$291,092	-\$200,000	-\$938,292
NET AMOUNT AVAILABLE FOR COMMITMENT TO STATE SCHOOL BUILDING LEASE-PURCHASE FUND	\$60,800	\$113,990	\$221,260	\$396,050

- A. THIS TABLE ILLUSTRATES ONLY THE REVENUE SOURCES PROVIDED BY CURRENT STATUTES, AND THE TRANSFERS AND LOANS MADE FROM THOSE REVENUES TO ARRIVE AT THE NET APPROPRIATION FOR SCHOOL CONSTRUCTION AND DEFERRED MAINTENANCE IN THE PARTICULAR FISCAL YEAR. THIS IS NOT A FUND CONDITION STATEMENT AND, ACCORDINGLY, DOES NOT INCLUDE ANY BEGINNING BALANCES IN THESE FUNDS.
- B. THE \$200 MILLION TRANSFERRED TO THE GENERAL FUND BY THE BUDGET ACT OF 1981 IS TO BE REPAYED IN 1984-85 THROUGH AN ADDITIONAL YEAR'S ALLOCATION OF TIDELANDS OIL REVENUE TO THE LEASE-PURCHASE FUND.