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The 2015-16 Budget:

Rethinking How the State Funds School Facilities

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Executive Summary

Recommend Transitioning to a New School Facility Financing Program. Many groups over the years have raised serious concerns with the state's current school facilities program. Notably, the existing program fails to treat school facility costs as an ongoing expense despite the recurring nature of facility needs, allows disparities based on school district property wealth, fails to target funding according to greatest need, results in excessive administrative complexity, and lacks adequate accountability mechanisms. Given these issues, the Governor indicates a strong interest in changing how the state funds school facilities, though he has not introduced a specific proposal to date.

We recommend the state replace the current program with a new grant program. Specifically, we recommend the Legislature (1) establish an annual per-student facility grant; (2) base the grant on the replacement value of existing school buildings and an estimate of their average useful life; (3) adjust the grant to reflect local resources, with larger grants for districts with lower property wealth; (4) adjust the grant during the transition to account for existing state debt service incurred on the district's behalf; (5) provide one-time funds to address the existing backlog of facility projects; and (6) require school districts that receive grant funds to adopt five-year facility accountability plans.

Introduction

In this brief, we provide background on the state's role in school facilities, identify notable problems with the state's current school facilities program, propose key design elements of a new program, and identify related issues that would need to be addressed if the state were to pursue the new system we set forth. Though the Governor does not have a formal facilities proposal, he has indicated strong interest in rethinking the state's current facilities financing approach.

Background

State's Role in Financing School Facilities Has Varied Greatly Throughout Its History. As shown in Figure 1 (see next page), the state's role in financing school facilities has generally expanded throughout the history of California. The California Constitution of 1849 required the state to provide for a public school in each school district at least three months every year and to use revenue from the sale and rental of certain public lands and private estates to support public schools. The 1879

Constitution required the state to maintain public schools for six months in a year and allowed school districts to issue general obligation bonds subject to the approval of two-thirds of local voters. For several decades thereafter, the state's involvement in school facilities was limited. During this period, local general obligation bonds were the primary source of funding for school facilities. The state's role in financing school facilities began in 1947 with the creation of the State Allocation Board (SAB), which began providing loans for school facilities from a series of state bond measures. For the next 30 years, the state provided financing for school facilities in the form of loans. Following the 1978 passage of Proposition 13, which eliminated the ability of school districts to issue bonds, the state began providing significant grant funds to school districts, in some cases paying for the full cost of school facility projects. The state continued to provide significant grant funds from a series of voter-approved bonds even after the 1986 passage of Proposition 46, which restored the ability of school districts to issue local bonds.

Existing State Facilities Program Created in 1998. The state created the School Facilities Program (SFP) in 1998 in response to concerns about the complexity of the Lease-Purchase Program, its immediate predecessor. As shown

Figure 1

Timeline of Key School Facility Actions

1849 to 1933	***State Limits Involvement Until Early 1930s.*** School districts finance virtually all school construction. Districts can issue local general obligation bonds with the approval of two-thirds of local voters.
1933 to 1978	***State Role Expands in Response to Seismic Safety Concerns and Enrollment Growth.*** Legislature enacts the Field Act in response to the Long Beach earthquake in 1933. Anticipating demographic growth from the Baby Boom, state creates State Allocation Board in 1947 and begins providing state financing for school facilities. State Allocation Board provides school districts with state loans for school facilities from 1949 to 1978.
1978	***State Role Dramatically Expands.*** Proposition 13 removes the ability of school districts to issue local bonds. State Allocation Board begins providing school districts with significant school facility grant funds.
1986	***Schools Regain Ability to Issue Local Bonds.*** Proposition 46 restores school districts' ability to issue local bonds subject to the approval of two-thirds of voters.
1998	***State Creates School Facility Program, Funds With Combination of State Bonds and Local Matches.*** State creates School Facility Program in response to concerns about the complexity of the state's previous school facility program. Proposition 1A, the first of four school bond measures, provides state funds for new construction, modernization, and class size reduction. The state also establishes developer fees covering up to 100 percent of the cost of school construction associated with new residential development.
2000	***Voters Approve Proposition 39, Reducing Vote Threshold for Local Bonds.*** Proposition 39 lowers vote threshold for school district bonds to 55 percent from two-thirds. State still requires districts to maintain indebtedness levels below statutory maximums (2.5 percent of assessed value for unified districts, 1.25 percent for elementary and high school districts). Districts that issue bonds under Proposition 39 provisions must maintain tax rates to repay bonds below statutory limits ($60 per $100,000 of assessed value per election for unified districts, $30 per $100,000 of assessed value per election for elementary and high school districts).
2000 to Present	***State Exhausts Bond Funds, School Districts Continue to Pass Local Bonds.*** State exhausts bond authority in new construction and modernization programs as of 2012. State Allocation Board receives $1.2 billion in applications for state funds despite lack of remaining bond authority. Voters approve total of $2 billion in local bonds for school facilities in 2013 and 2014 elections despite absence of state funding in core programs.

in Figure 2, SFP has two core programs: new construction and modernization. For both programs, the state provides a per-student grant to participating school districts. For new construction, the state grant is intended to cover 50 percent of the project cost, whereas the modernization grant is intended to cover 60 percent of the project cost. School districts are required to cover the remainder of new construction and modernization project costs through local matches. The larger state share provided for modernization is intended as an incentive to modernize existing facilities rather than build new schools. The state also has created a number of smaller facilities programs to fund other state priorities, including charter schools, seismic upgrades, reducing overcrowding, and energy-efficient schools. The SFP allocates funding primarily on a first-come, first-served basis. School districts are required to submit specific projects for approval to receive state funding.

Today School Districts Can Access Significant Local Revenue for School Facilities. As noted above, school districts have had the ability since 1986 to issue local general obligation bonds for school facility projects. The passage of Proposition 39 in 2000 lowered the voter threshold for these local bonds from two-thirds to 55 percent. Since Proposition 39, local voters have approved about 80 percent of school district bond measures. (In contrast, about 60 percent of local school district bond measures were successful prior to Proposition 39.) In addition, SFP allowed districts to assess developer fees that could cover up to 100 percent of the cost to build new schools. In practice, developer fees have covered no more than half of project costs because districts are only

Figure 2

Key Components of School Facilities Program

- ***New Construction Eligibility Based on Enrollment Projections.*** Districts submit specific new construction projects for approval and receive a grant based on their number of current and projected unhoused students. The state awards funding on a first-come, first-served basis. The state and school districts share project costs on a 50-50 basis. Districts are required to submit progress reports, expenditure reports, and project information worksheets. Districts that receive grants also are required to set aside 3 percent of their annual budget for routine maintenance.
- ***Modernization Eligibility Based on Age of Building.*** Districts submit specific modernization projects for approval and receive a grant based on the number of students housed in buildings that are at least 25 years old. The state awards funding on a first-come, first-served basis. The state and school districts share costs on a 60-40 basis. Districts are required to submit progress reports and expenditure reports. Districts that receive grants also are required to set aside 3 percent of their annual budget for routine maintenance.
- ***Financial Hardship Program Targeted to School Districts With Inadequate Local Resources.*** The state covers part or all of project costs for districts unable to meet the local match requirement for new construction and modernization projects. Districts have to levy the maximum developer fee allowed (typically 50 percent of project costs), demonstrate local effort (typically through placing a bond measure on the ballot), and certify they are unable to contribute the full match.
- ***Several Categorical Programs Targeted to Specific State Priorities.*** The four state bond measures enacted since 1998 have authorized various categorical facility programs. These have included programs for reducing class sizes; alleviating overcrowding; building and renovating charter schools; integrating career technical education into high schools; mitigating seismic safety issues; and promoting projects with "high performance attributes" such as energy efficiency, enhanced natural lighting, and use of recycled materials.

permitted to assess 100 percent of project costs when SAB certifies that state new construction funding has been exhausted. (Although new construction funds effectively have been exhausted since 2012, SAB has not made this certification to date.)

Limits Placed on School District Indebtedness and Property Tax Overrides. Under state law, a unified school district's outstanding debt cannot exceed 2.5 percent of assessed value in the district. For an elementary or high school district, the figure is 1.25 percent. In practice, several districts have sought waivers from the State Board of Education to exceed these debt ceilings. Data from recent years indicate these waivers are routinely granted. In addition, districts that issue bonds under the provisions of Proposition 39 cannot levy tax rates to repay those bonds that exceed $60 for unified districts or $30 for elementary and high school districts per $100,000 of assessed value per election. These property tax limits can restrict the amount of debt districts can issue for school facilities, even if they are under their debt ceilings.

Tracking School Facilities Funding

State Has Authorized $35.4 Billion in Bonds for K-12 Facilities Since 1998. The state funded the SFP with a series of four voter-approved bond measures between 1998 and 2006 that provided $35.4 billion for school facilities. The most recent bond measure, Proposition 1D, passed in 2006 and provided $7.3 billion for school facilities.

Virtually All State Bond Authority Exhausted. The state has been out of bond authority in its two core programs, new construction and modernization, since 2012. However, the state still had $286 million in bond authority remaining from the four bond measures as of November 2014. This primarily reflected bond authority remaining in three categorical programs: seismic repair ($142 million remaining), charter school construction and modernization ($99 million remaining), and energy-efficient schools ($32 million remaining).

School Districts Have Authorized at Least $75.2 Billion in Local Bonds Since 1998. According to data from the California Debt and Investment Advisory Commission (CDIAC), school districts have authorized at least $75.2 billion in local bonds for school facilities since 1998. (The Commission did not collect data for the 1999 and 2001 elections, so the actual total very likely is slightly higher.) Of the $75.2 billion, districts authorized slightly less than half ($34.1 billion) during the period the state also authorized state bonds for school facilities (1998 through 2006) and slightly more than half ($41.1 billion) since the last state bond for school facilities was approved (2007 through 2014).

School Districts Also Have Levied $9.4 Billion in Developer Fees Since 1998. Based on school districts' reported data, the amount of developer fees school districts collected peaked at $1.1 billion annually in 2004-05 and 2005-06 and plunged to $210 million by 2010-11 in the aftermath of the housing crash. Developer fees averaged $585 million annually from 1998-99 to 2013-14.

Problems With Existing System

Several Problems Identified With Current System. Over the past several years, the administration, SAB, and our office have highlighted various concerns with the SFP. This year, in the *Governor's Budget Summary*, the Governor offers several specific criticisms of SFP, including an overly complex administrative apparatus comprised of at least 10 state agencies, highly prescriptive facility requirements that hamper local planning and flexibility, and insufficient recognition of the expanded local revenue available since the passage of Proposition 39. We share some of the Governor's

concerns. Below, we describe our main concerns in more detail.

Shortcomings With Current State View of School Facilities. Under the current system, the state does not treat school facilities costs as an ongoing expense. The Legislature generally considers facility funding only when it asks voters to approve a state school facilities bond. It is difficult to justify treating facilities so differently from other school expenses. In particular, every district's facilities are depreciating every year, with districts required to plan for their maintenance, repair, and eventual replacement. This is a predictable, ongoing responsibility.

Current State Financing Mechanism Inappropriate for Ongoing Needs, Creates Uncertainty for Districts. The state's view of school facilities is reflected in its funding mechanism. Instead of using an ongoing funding source, which would better align with the recurring nature of facilities requirements, the state has financed school facilities with periodic bond issuances. This further reinforces the mistaken view that school facilities are an elective expense that can be considered every few years, subject to state politics and voter approval, as opposed to considering ongoing facility needs as part of the annual budget process. The state's reliance on bonds also contributes to uncertainty about the availability of state funding and unevenness in the distribution of state funds. For example, while the amount of state funding distributed since SFP was created has averaged about $2 billion a year, the amount distributed in a given year has ranged from $140 million to $5 billion. The wide variance in state funding from year to year can make it difficult for school districts to plan facilities projects.

Financing System Also Allows Inequities Based on School District Property Wealth. Because the current financing system does not fully account for differences in local property wealth, it allows school districts to raise vastly different amounts per student at a given tax rate, raising equity concerns. While the existing Financial Hardship Program mitigates this issue to some extent (providing additional state funding for some districts that are close their debt ceilings or have lower property wealth), significant differences remain in districts' local revenue raising ability. In addition, charter schools cannot issue bonds, although a few charter schools have been able to access bonds when the school district where they are located has allowed them to participate in the district's bond measure.

First-Come, First-Served Approach Does Not Always Serve Greatest Need. The SFP also has notable shortcomings in how it distributes state funding. The state's first-come, first-served approach tends to reward districts that have more resources or are able to apply more quickly for state funding. The state was sued over its first-come, first-served approach in 2000. In response, the state set aside $450 million for large, urban districts that claimed the previous allocation system disadvantaged them. The state also revised its system for allocating new construction dollars to prioritize districts with a high number or percentage of unhoused pupils. However, these new guidelines only applied to state bond funds approved for new construction prior to January 2002. Applications for new construction funding from bond funds approved after January 2002 and all applications for modernization funding continued to be processed on a first-come, first-served basis.

Administrative and Programmatic Labyrinth Limits District Flexibility. Although SFP was supposed to reduce the complexity of the state's prior school facilities program, it is widely acknowledged that the program has grown significantly more complex over the years. For example, school districts may have to work with

ten or more state agencies before completing a construction project. This complexity creates a large administrative burden for the state as well as school districts, many of which have hired consultants to navigate the intricacies of SFP. In addition, the categorical programs created to address state priorities such as seismic repair and energy-efficient schools have consistently been underutilized, suggesting state funds could be better invested elsewhere. The complexities of the funding process, the existence of numerous categorical programs, and extensive regulations governing school construction limit school districts' flexibility in designing and building facilities that meet local needs.

Accountability System Not Optimal. The SFP has several measures in place to establish accountability for districts that receive state funding. Districts are required to submit annual expenditure reports until project completion documenting the use of state funds. The Office of Public School Construction is required to initiate an expenditure audit within two years of receiving the final expenditure report. Additionally, new construction projects are required to submit project information worksheets at fund release, one year after fund release, and at project completion. While these measures may ensure state funds are used for allowable expenses, they do not by themselves create powerful incentives to develop, monitor, and refine coherent and comprehensive district facility plans. Whereas the state now requires school districts to develop these types of ongoing plans for school operations through their Local Control and Accountability Plans (LCAPs), it does not require districts to adopt a similar document for school facilities (although districts are required to address routine maintenance in their LCAPs).

Basic Design Elements of New System

Problems Suggest a New School Facilities Program Is in Order. Because of the problems described above, we believe the current system is not well-equipped to meet state and local school facility priorities. Instead, we propose creating a new school facilities program that would help address many of the shortcomings of the existing system. Below, we lay out the basic design elements of a new program. In the subsequent section, we outline the specific decisions the Legislature would need to make to implement such a program.

Create Annual School Facilities Grant. We recommend the Legislature provide an annual grant for school facilities, which reflects the fact that all school districts have ongoing facility needs regardless of their ability to participate in the state funding process. We recommend the Legislature link the grant to a share of a district's annualized "expected facility cost." The expected cost would be based on the replacement value of existing school buildings and an estimate of the average useful life of those buildings. (See the nearby box for further discussion on how the state could calculate this number.) The state would then provide annual funds to school districts to cover a minimum share of this expected cost (districts with fewer local resources would qualify for a higher state share, as discussed below). Because facility needs are largely driven by the size of a student population, the state would award grant funds on the basis of attendance. Districts could use these funds for any facility needs, including new construction, modernization, or major maintenance. They could supplement state dollars with revenue from local sources, including general obligation bonds, developer fees, and operational funds. (The state already funds some charter school facilities using an annual grant approach, as discussed in the box on page 8. We recommend the Legislature

effectively fold the funds for this charter school facility program into a new annual grant program that would apply to both school districts and charter schools.)

Adjust Grants for Differences in Local Resources. After establishing the minimum state share, we recommend the state increase the state share for some school districts based on their local resources. For school districts with low property wealth, the state would provide a larger share, while higher property wealth districts would receive the minimum state share.

Adjust Grant for Prior State Investments in School Facilities During Transition Period. The state invested $35.4 billion in school facilities beginning in 1998 and authorized $7.2 billion in bonds for K-12 facilities during the previous 10 years. As of 2015, the state still owes more than $50 billion in principal and interest on K-12 school facility bonds going back to 1988. According to the state Treasurer, the state will pay an average of $1.7 billion in General Fund revenue annually until the outstanding debt is paid off (expected to occur in 2044). State debt service payments on

Two Approaches for Calculating Facility Costs

Below, we describe two approaches the state could use to estimate the amount of future funding needed for school facilities. Each approach has benefits and drawbacks.

Historical Expenditures. One approach is to assume school districts will need roughly the same amount for facilities in the future as they have spent in past years. School districts spent $107.5 billion on capital outlay between 1998-99 and 2013-14. Annual spending during that period averaged $6.7 billion. If districts continued to require this amount of capital spending in the future, they would need about $1,080 per student per year from all sources (not adjusting for inflation). Past spending provides some indication of how much funding districts require each year to replace, modernize, and maintain facilities. However, recent spending trends may not be a particularly helpful indication of future requirements. When the School Facilities Program (SFP) was created in 1998, schools in California were experiencing significant enrollment challenges. Over the next decade, enrollment is projected to decline. Using spending trends from SFP to project future spending could tend to overestimate need, at least for new construction.

Building Replacement. Another approach is to estimate future needs using the replacement cost of existing school facilities. Recent SFP data suggest schools built in the last decade have averaged 80 square feet per student. Based on statewide enrollment, this suggests there are roughly 500 million square feet of school building space in California. At a cost of $400 per square foot (suggested by recent cost data provided by State Allocation Board staff), replacing all California school buildings would cost an estimated $200 billion. Assuming a useful school building life of 25 years, districts would have to spend 4 percent of this amount for building replacement, modernization, or maintenance in a given year, or $8 billion. This would be about $1,300 per student per year from all sources. Using building replacement cost to estimate future need avoids the pitfalls of assuming future requirements will mirror past spending. However, this methodology is highly sensitive to certain assumptions. For example, a more conservative 50-year estimate of useful school building life halves the estimate of annual need to $4 billion statewide and $650 per student.

K-12 school bonds will average $2.2 billion through 2030, then decline for the next 14 years. According to SAB, about 865 school districts (91 percent of all districts) participated in SFP (charter schools that participated in SFP are not counted separately from the district where they are located). Given that the state is continuing to spend significant annual resources to pay for investments in these schools, we recommend offsetting grant funding with existing state funding being provided on a school district's behalf. To accomplish this, the state could reduce facilities grant funding for a given district by all or a portion of the amount of debt service the state is paying for that district. Districts for which the state is not paying debt service would not have their grant funds reduced.

Provide One-Time Funds to Address Backlog of School Facilities Projects. To help school districts transition to the new funding model, the state could provide one-time funds to address the existing backlog of modernization and new construction projects. (Over the years, the state has provided one-time Proposition 98 funds for various school facility purposes, including emergency repairs, energy projects, and deferred maintenance.) These one-time funds could help school districts during the transition to a new annual grant system. The funds could allow them to address immediate facility issues or save for future facility costs, potentially using the monies as a match to future local bond funding. As discussed further in the next section, the state could consider various factors when deciding the amount and allocation of any such one-time funds.

Require Five-Year School Facility Accountability Plans. We recommend requiring all districts that receive state funds under a new annual grant system to adopt five-year facility accountability plans. This would provide the state some assurance that grant recipients were appropriately planning for future new construction, modernization, and maintenance needs. Similar to LCAPs, we recommend the Legislature specify the elements these plans would include (such as a maintenance plan, enrollment projections, and a priority list of facility projects) and require formal school board approval.

Decisions to Resolve in Coming Months

If the Legislature chooses to design a new school facility program based on the principles outlined above, it will have a series of key decisions to make over the coming months. We describe these decisions below. The box on page 11 provides

Charter School Facility Grant Program

In 2001, the state established the Charter School Facility Grant Program to provide facility funding for charter schools serving low-income students. Charter schools are eligible if they enroll or are located in the attendance of an elementary school where at least 70 percent of students qualify for free or reduced-price meals. Qualifying schools can receive up to $750 per student for costs associated with lease agreements, deferred maintenance, and site improvements. Total funding, however, may not exceed 75 percent of the charter school's annual facility costs. In addition, charter schools may not receive funding for debt service costs related to buildings they own directly. In 2013-14, the most recently completed grant cycle, the program awarded about $70 million in funding to about 300 charter schools. (In 2013-14, 28 percent of charter schools received a grant under the program.) In 2014-15, the state appropriated $92 million for the program.

hypothetical examples of how a new program based on our design elements would work.

Determine Annualized Expected Facility Cost. As noted above, we recommend using building replacement value to estimate future facilities requirements. If the Legislature adopts this approach, it will have to decide which assumptions to use in estimating annualized facility cost. As discussed earlier, this methodology is highly sensitive to the assumed useful life of a school building. Doubling the assumed useful life of a school reduces the estimate of future facility requirements by half. Once it determines total expected cost, the state can use statewide attendance to derive an expected per-student cost.

Set State Minimum Share. After determining the annualized expected facility cost, the state will have to decide the minimum share it will cover. To determine the appropriate minimum share, we believe the state should consider existing state resources and the amount of local resources available to support facility projects.

Set Sliding Scale to Adjust Grant for Disparities in Local Revenue. The state will next have to determine how to adjust funding for differences in local revenue. While we recommend adjusting the share of the grant the state covers for differences in school district property wealth, the Legislature will have to determine how to structure this adjustment. For example, the state could create a sliding scale that adjusts each grant according to a district's property wealth, with the state share increasing as local property wealth decreases. The state has many options in designing the exact sliding scale to use. One option would be to have a highly graduated sliding scale—for example, with the state share increasing one percentage point for each percentage point decline in a local wealth index. Another option would be to have a sliding scale with particular thresholds—for example, providing a state share of 75 percent for all districts with local property wealth below a certain level.

Set Adjustment for Prior State Investment in Facilities During Transition Period. The state will also have to decide how to adjust funding for the state's prior investment in school facilities. For example, the state could offset grant funding to each district by the full amount of outstanding state debt service associated with past state facility funds received by that district. In other words, districts with state debt service incurred on their behalf would not receive grant funding until the state has paid off the debt. Given the large amount of outstanding state debt service and the fact that most school districts participated in SFP, the state may choose to only partially offset grant funding. Even if the state chooses to offset grant funding by the full amount of outstanding debt service, it could limit the amount that is offset in any given year. For example, the state could cap offsets at half of a district's grant funding in a given year. While this would extend the period that a district's state funds were offset, it would also allow districts that received significant state aid in previous years to begin receiving some state funding immediately.

Determine How to Allocate One-Time Funding. If the state were to provide one-time funding to help with any current facility backlog, it likely would want to take into account available state resources as well as current district facility needs. The state would have several ways to assess and respond to current facility needs. One option would be to fund projects for which districts already have applied to SAB. The SAB has received applications for $1.2 billion in school facility projects since the state exhausted bond authority in core programs. Of this total, $393 million in applications (multiple project types) have been approved, $490 million in applications are for new construction projects that have not been reviewed, and $331 million in

applications are for unapproved modernization projects. Because the majority of these applications have not been reviewed and many may not be eligible for state funding, the dollar amount of unfunded applications may not be an accurate estimate of current need. It is also likely that many districts stopped submitting applications after state funding was exhausted in core programs and SAB stopped reviewing applications. Given these issues, another option would be to require districts to reestablish eligibility for state funds under existing SFP guidelines. Yet other options would be to design a special application process based on state-determined priorities, or, given concerns with the existing project-based system, distribute the funds on a per-student basis. This latter option would ensure that all districts—given all their various facility conditions, ages, and plans—receive some funds to address facility projects. The state also would need to decide whether to allocate any of the funds to charter schools.

Set Conditions of State Funding. One of the principal advantages of the new approach described above is that it would provide districts significant flexibility to spend state and local dollars to meet local facility needs. We recommend, however, that the Legislature decide whether grant recipients must take any actions as a condition of receiving state funds. Under SFP, the state required school districts that received state funding to set aside 3 percent of General Fund expenditures for routine maintenance for 20 years and adopt an ongoing and major maintenance plan describing how these funds would be spent. The Legislature could consider whether it would want to maintain these types of facility requirements. (If the Legislature chooses to maintain these requirements, information on how districts are meeting these requirements could be specified in districts' five-year facility accountability plans.)

Decide Whether to Fund New Facility Program Within Proposition 98 Minimum Guarantee. The Legislature also will have to decide whether to account for the new program on the Proposition 98 or non-Proposition 98 side of the budget. As indicated earlier, the state has precedent for funding school facilities within the Proposition 98 minimum guarantee. The state has funded the Emergency Repair Program, provided grants and loans for energy efficiency projects under the California Clean Energy Jobs Act, and supported the Deferred Maintenance categorical program within the guarantee. Moreover, as a condition of receiving funding under the Local Control Funding Formula, the state requires districts to report on their facilities as part of their LCAPs and ensure that their facilities are in good condition. Funding the program within the guarantee would allow the state to consider facilities in the context of overall education financing decisions. If the state funds the program on the Proposition 98 side of the budget, it would have further decisions to make—in particular, whether to adjust the guarantee upward to account for the additional program cost, provide more than the guarantee requires in any given year, or fund from future growth in the guarantee. Rather than funding within the guarantee, the state could fund the program outside the guarantee, thereby potentially providing more overall resources for education but at the expense of other state priorities.

Set Parameters to Local Revenue Raising. The state will have to make a series of key decisions relating to local revenue raising. Specifically, the state will have to decide whether to revise existing limitations on school district indebtedness and property tax overrides. The state also will need to determine if the current developer fee structure is appropriate in light of the new financing system.

Decide Elements to Include in Facility Accountability Plans. Another key decision for the state is what elements to require in facility accountability plans. As noted above, elements the state could consider include a plan to address ongoing maintenance, enrollment projections, a priority list of facility projects, and how districts plan to leverage state and local dollars to meet these needs.

Illustration of How New Financing Model Could Work

Decisions about the expected facility cost, the minimum state share, the adjustment for district resources, and the offset for existing state facility support would determine exactly how a new financing model would work. To help foster a general understanding of how a new financing system could work, we show how hypothetical school districts would be affected under one possible scenario. To help isolate the effects of the financing model, the scenario assumes equally sized districts (10,000 students). Below, we describe the scenario and the resulting amount of funding the state would provide for the districts.

Expected Cost of $1,000 Per Student, State Covers at Least 25 Percent. This scenario assumes an "expected facility cost" of $1,000 per student (assuming buildings have a useful life of about 33 years) and a minimum state share of 25 percent (or $250 per student). The scenario assumes the state would provide supplemental funding of $500 for districts with low assessed value (for total support of $750 per student, or 75 percent of the expected facility cost) and $250 for districts with moderate assessed value (for total support of $500 per student, or 50 percent of the expected facility cost). The scenario also assumes the state would offset a district's grant with all state debt service associated with state bond funding received by the district in previous years, but would offset no more than 50 percent of a district's grant in any given year.

- District A has low assessed value and no state debt service on its behalf. The state would set this district's base grant at $2.5 million and supplemental aid at $5 million for a total of $7.5 million. Lacking any associated state debt service, the district would begin receiving the full $7.5 million the first year of the program.

- District B has moderate assessed value and some state debt service on its behalf. The district's annual base grant before offsets would be $2.5 million. This district would be entitled to $2.5 million in supplemental aid, for a total annual grant of $5 million. In the initial years, the state would offset the district's annual grant by half, providing $2.5 million annually. Over time, as the debt service is retired, the district's annual allocation would increase.

- District C has high assessed value and some state debt service on its behalf. This district's base grant would also be $2.5 million. It would receive no supplemental funding. The district would receive annual funding of $1.25 million annually during the offset period. At the end of this period, the district would receive the full grant allocation.

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This brief was prepared by Jameel Naqvi and reviewed by Paul Golaszewski and Jennifer Kuhn. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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