Date of Hearing: May 10, 2017

ASSEMBLY COMMITTEE ON EDUCATION
Patrick O'Donnell, Chair
AB 1550 (Limón) – As Amended April 18, 2017

SUBJECT: School finance: school bonds: small school district

SUMMARY: Authorizes two or more small school districts to form a joint powers authority (JPA) for the purpose of authorizing, issuing, and selling bonds for raising money for small school districts. Specifies that a JPA shall be deemed a school district for purposes of issuing bonds and may exercise all authority granted to a school district, including that the bonds shall be authorized, issued and sold in the same manner as school districts. Defines "small school district" as a school district with fewer than 2,501 units of average daily attendance (ADA).

EXISTING LAW:

1) Authorizes school districts and community college districts to issue general obligation (GO) bonds upon approval by voters and establishes a process and guidelines for such issuances under the Education Code. Authorizes any city, county, city and county, school district, community college district, or special district to issue GO bonds, secured by the levy of ad valorem taxes, and establishes a process for such issuances under the Government Code. (Education Code (EC) Section 15100 et seq. and Government Code Section 53506 et seq.)

2) Specifies that the total amount of bonds issued by a school district shall not exceed 1.25% of the taxable property of the district and that the tax rate shall not exceed $30 per $100,000 of taxable property. (EC Sections 15102 and 15268)

3) Specifies that the total amount of bonds issued by a unified school district and a community college district shall not exceed 2.5% of the taxable property of the district and that the tax rate shall not exceed $60 per $100,000 of taxable property for a unified school district and $25 per $100,000 of taxable property for a community college district. (EC Sections 15106 and 15270)

4) Specifies that GO bonds issued and sold by or on behalf of a local agency shall be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. (EC Section 53515)

FISCAL EFFECT: None. This bill is keyed non-fiscal by the Legislative Counsel.

COMMENTS: ***Background***. School districts and community college districts pay for the construction and rehabilitation of school and community college facilities through a combination of state education bond funds, developer fees, and local bond funds. GO bonds must be approved by voters, who agree to an ad valorem (per assessed value of property) tax to pay for the bonds. Prior to 2001, passage of a local bond required a 2/3 supermajority vote. In 2000, voters approved Proposition 39, which provided an option for approval of a local education bond based on a 55% vote rather than a 2/3 vote.

Once bonds are authorized or approved by voters, districts can issue or sell the bonds. Under current law, school and community college districts can issue GO bonds under the provisions of the Education Code or under the provisions of the Government Code, which governs bond issuances for any city, city and county, special district, as well as school district or community college district. There are some notable differences between the two codes. The Government Code authorizes the term of bonds to be up to 40 years, whereas the Education Code limits term of bonds to 25 years. The Government Code authorizes issuers to issue on their own, whereas the Education Code requires school districts to go through county boards of supervisors. The Government Code authorizes a maximum interest rate of 12% whereas the Education Code limits interest rates to 8%.

Because GO bonds are backed by property taxes, which are seen as secure, they typically obtain the highest bond ratings and widest investor acceptance, which results in the lowest borrowing costs among various types of long-term bonds. Higher bond ratings result in lower interest rates. However, bond rating agencies perceive that some school districts' distressed financial conditions could pose a threat to those districts' GO bond payments, even though bonds are secured by property taxes and do not affect a district's general funds. As a result, districts in financial difficulty receive lower GO bond ratings than do districts in more stable financial condition.

The author states, "Small school districts, which constitute more than 600 of the 1,000 school districts in California, are oftentimes not eligible for an AAA bond rating, when they issue debt, because they are too small to have assets necessary to guarantee the borrowing." This bill is intended to assist small school districts, defined as school districts with 2500 or fewer ADA, in obtaining lower interest rates and reducing issuance costs.

This bill proposes to allow two or more small school districts to form a JPA for the purposes of issuing bonds in a larger pool. In theory, a JPA will allow multiple school districts to issue bonds jointly, thereby dividing issuance costs (e.g., fees for financial advisors, bond counsels, rating agencies, underwriters, etc.) among participating districts. It is unclear whether this bill will result in lower interest rates as each district may have variable ratings from rating companies and it is unknown how the rating companies will treat such a JPA.

Under current law enacted by SB 222 (Block), Chapter 78, Statutes of 2015, GO bonds issued by local governments, including school districts, are secured by a statutory lien on all revenues received. One of the purposes for the bill was to eliminate the risk of nonpayment and thereby enable school districts to receive better ratings and lower interest rates. According to the sponsor of AB 1550, the Small School Districts' Association, only one of the three primary rating agencies credits school districts with security through a lien. The sponsor states, "That one rating agency only recognizes the effect of SB 222 (2015) on the underlying rating, not the tax base rating, resulting in few benefits once underwriters actually sell those bonds to purchasers in a discerning bond market. The prejudice against small school districts in the bond market, though unwarranted, necessitates creative approaches to reducing overheard and other fixed costs."

This bill is modeled after authorization given to regional occupational center or program (ROC/P) operated by a JPA (EC Section 52319). There are also a number of authorizations in the Government Code (Section 6500 et seq.) allowing local governmental entities, such as cities and counties, to form JPAs for the purposes of incurring debt or levying taxes.

Previous related legislation. SB 222 (Block), Chapter 78, Statutes of 2015, specifies that GO bonds issued and sold by local governments, including school districts, are secured by a statutory lien.

AB 1198 (Dababneh), introduced last session, establishes the California Credit Enhancement Program within the California School Finance Authority (CSFA) to establish a fund to be used to insure facility bonds issued by the CSFA in order to achieve lower cost alternatives for charter schools. The bill was vetoed by Governor Brown due to potential future cost concerns.

AB 2170 (Mullin), Chapter 386, Statutes of 2014, authorizes two or more public agencies to jointly exercise any power common to the contracting parties, including, but not limited to, the authority to levy a fee, assessment, or tax, even though one or more of the contracting agencies may be located outside this state.

REGISTERED SUPPORT / OPPOSITION:

Support

Small School Districts' Association (sponsor)
California School Boards Association

Opposition

None on file

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