

Governor's Budget Summary – 2015-16

K-12 School Facilities

Since 1998, voters have approved approximately \$35 billion in statewide general obligation bonds to construct or renovate public school classrooms used by the state's roughly six million K-12 students. In addition to general obligation bonds, school districts may use developer fees, local bonds, certificates of participation, and Mello-Roos bonds to construct additional classrooms or renovate existing classrooms. There is currently no bond authority remaining in the state's core school facilities new construction and modernization programs.

Over the past two years, the Administration has noted the following significant shortcomings associated with the current School Facilities Program:

- The current program is overly complex with over ten different state agencies providing fragmented oversight responsibility. The result is a structure that is cumbersome and costly for the state and local school districts.
- The current program does not compel districts to consider facilities funding within the context of other educational costs and priorities. For example, districts can generate and retain state facility program eligibility based on outdated or inconsistent enrollment projections. This often results in financial incentives for districts to build new schools to accommodate what is actually modest and absorbable enrollment growth. These incentives are exacerbated by the fact that general obligation bond debt is funded outside of Proposition 98. These bonds cost the General Fund approximately \$2.4 billion in debt service annually.
- The current program allocates funding on a first-come, first-served basis, resulting in a substantial competitive advantage for large school districts with dedicated personnel to manage facilities programs.
- The current program does not provide adequate local control for districts designing school facilities plans. Program eligibility is largely based on standardized facility definitions and classroom loading standards. As a result, districts are discouraged from utilizing modern educational delivery methods.
- The current program was developed before the passage of Proposition 39 (which reduced the local bond vote threshold to 55 percent) in 2000, which has since allowed local school bonds to pass upwards of 80 percent of the time. It was also developed before the Local Control Funding Formula, which provides enhanced local funding flexibility.

As part of a continuing dialogue, the Department of Finance convened a series of meetings this past fall to discuss a new facilities program and obtain feedback from education stakeholders. The meetings started with a review of the problems with the current program noted above, and focused on how a future program could provide districts with the tools and resources to address their core facility gaps and avoid an unsustainable reliance on state debt issuance. Informed by these discussions, and with these key principles in mind, the Budget proposes the following recommendations for the design of a new program:

- Increase Tools for Local Control:
 - Expand Local Funding Capacity—While school districts can pass local bonds with 55-percent approval, assessed valuation caps for specific bond measures and total caps on local bonded indebtedness have not been adjusted since 2000. In order to provide greater access to local financing, these caps should be increased at minimum by the rate of inflation since 2000.
 - Restructure Developer Fees—Current law authorizes the governing board of any school district to levy fees against construction within its boundaries to fund school facilities. There are three categories that determine the amount of fees a district can levy, which range from a fraction of project costs to 100 percent of the costs. A new program should establish one developer fee level for all districts and cap the amount of fees that can be levied for specific projects at a level between the existing Level II and Level III fees (50 to 100 percent of project costs), subject to local negotiation.
 - Expand Allowable Uses of Routine Restricted Maintenance Funding—Current law requires schools to deposit a percentage of their general fund expenditures into a restricted account for use in maintaining their facilities. Rather than requiring that these funds be used solely for routine maintenance, districts should have the ability to pool these funds over multiple years for modernization and new construction projects. Expanding the use of these funds will provide school districts with yet another funding stream to maintain, modernize, and construct new facilities.
- Target State Funding for Districts Most in Need—State funding for a new program should be targeted in a way that: (1) limits eligibility to districts with such low per-student assessed value they cannot issue bonds at the local level in amounts that allow them to meet student needs, (2) prioritizes funding for health and safety and severe overcrowding projects, and (3) establishes a sliding scale to determine the state share of project costs based on local capacity to finance projects.

- Augment the Charter School Facility Grant Program—Most of California’s charter schools lease facilities for instructional purposes. To assist charter schools in paying for rent and lease expenditures, the Charter School Facility Grant Program provides funding to charter schools either serving or located in attendance areas where at least 70 percent of the students qualify for free or reduced-price meals. To further assist charter schools with their facility needs, the state should permanently lower the free or reduced-price meal requirement to 55 percent (the concentration grant Governor’s threshold under the Local Control Funding Formula) and provide additional funding to support this program expansion.

In proposing these recommendations, it is the intent of the Administration to advance the dialogue on the future of school facilities funding. School districts and developers should have a clear understanding of which limited circumstances will qualify for state assistance. Over the course of the coming months, the Administration is prepared to engage with the Legislature and education stakeholders to shape a future state program that is focused on districts with the greatest need, while providing substantial new flexibility for local districts to raise the necessary resources for school facilities needs.