

## DOCUMENT RESUME

ED 453 644

EF 005 941

AUTHOR O'Malley, Marianne; Guyer, Chris; Skinner, Erik  
TITLE A New Blueprint for California School Facility Finance. An  
LAO Report.  
INSTITUTION California State Legislative Analyst's Office, Sacramento.  
PUB DATE 2001-05-01  
NOTE 23p.  
AVAILABLE FROM California State Legislative Analyst's Office, 925 L.  
Street, Suite 1000, Sacramento, CA 95814. Tel: 916-445-2375.  
For full text: [http://www.lao.ca.gov/2001/school facilities/  
050101 school facilities.pdf](http://www.lao.ca.gov/2001/school%20facilities/050101%20school%20facilities.pdf).  
PUB TYPE Reports - Descriptive (141)  
EDRS PRICE MF01/PC01 Plus Postage.  
DESCRIPTORS \*Educational Facilities Improvement; Elementary Secondary  
Education; Program Descriptions; Public Schools; \*School  
Construction; \*State Aid; State School District Relationship  
IDENTIFIERS \*California

## ABSTRACT

This report provides an overview of California's current process of supporting K-12 school capital outlay, identifies its shortcomings, and offers a conceptually different approach, or blueprint, for providing state school construction support. The report also outlines a model program, consistent with this blueprint, which the state legislature could phase in as resources permit. How California pays for school construction is explained along with an analysis of how well the existing finance system works, the development process of the new blueprint for school facility finance and its application, oversight management, and short-term transition funding for districts with large unmet facilities needs. Final comments address the program's demand for state resources and the legislative responsibilities involving resource allocation. (GR)

Jim Stahley

TO THE EDUCATIONAL RESOURCES  
INFORMATION CENTER (ERIC)

# An LAO Report

## Background

ED 453 644

## LAO Recommendations

U.S. DEPARTMENT OF EDUCATION  
Office of Educational Research and Improvement  
EDUCATIONAL RESOURCES INFORMATION  
CENTER (ERIC)

This document has been reproduced as  
received from the person or organization  
originating it.

Minor changes have been made to  
improve reproduction quality.

Points of view or opinions stated in this  
document do not necessarily represent  
official OERI position or policy.

EF 005 941

Elizabeth G. Hill  
Legislative Analyst

# A New Blueprint for California School Facility Finance

About one in three California school children attends an overcrowded school or a school needing modernization. Statewide, the cost to correct these problems totals about \$30 billion.

Roughly every two or three years, the state issues a general obligation bond to pay part of the cost of constructing and remodeling schools. School districts, however, are never sure when this state funding will be available, how much will be available, or what rules will govern its eligibility.

The state should develop a new blueprint for K-12 facility finance which provides:

- ❖ **Predictable State Funding.** Just as the state supports school operations on an ongoing basis, the state should appropriate funds for capital outlay annually.
- ❖ **A Refocused State Role.** Instead of debating the relative need for facility funding among California's 8,000 schools, the state should provide funding to all districts. Specifically, the state should identify the average annual cost of providing educational facilities for students and provide a defined share of this amount to every district as an annual, per-pupil, facilities grant.
- ❖ **Local Control/Local Responsibility.** School districts would raise the remaining funds needed to provide educational facilities. (Districts with limited financial means would receive additional state support.) Responsibility for school capital outlay programs would rest with districts, but they would have broad discretion to spend state and local capital outlay funds for any facility-related purpose.
- ❖ **A Transition Program.** To bring school district facilities to more comparable "starting points" and facilitate the success of the new capital outlay funding program, the Legislature should target the allocation of the next couple of state bonds to those districts with large unmet facilities needs.

May 1, 2001

Full text available at:  
[http://www.lao.ca.gov/2001/school\\_facilities/  
050101\\_school\\_facilities.pdf](http://www.lao.ca.gov/2001/school_facilities/050101_school_facilities.pdf)



---

## INTRODUCTION

Despite significant sums raised for school construction in recent years, about one in three California students attends an overcrowded school, or one in need of significant modernization.

According to the State Allocation Board, the cost to address these pressing school facility needs is about \$30 billion, with the state's share of cost exceeding \$17 billion. Because less than \$2 billion of state school construction bond funds remain uncommitted, the state will need to raise more than \$15 billion to pay its share of these school facility costs.

Even after these school projects are constructed, however, demand will not abate for state support for school facilities. As enrollments grow

and school facilities age, school districts will develop further capital outlay needs.

Given the magnitude of the cost to house California school children and the increasing debate regarding the allocation of state resources to school districts-it is timely for the Legislature to review California's state-local partnership for financing school construction.

This report provides an overview of the state's current process of supporting school capital outlay and identifies shortcomings. To address these problems, we offer a conceptually different approach-a new "blueprint"-for providing state school construction support. We outline a model program, consistent with this blueprint, which the Legislature could phase in as resources permit.

## HOW CALIFORNIA PAYS FOR SCHOOL CONSTRUCTION

In California, as in most of the United States, the cost of building and modernizing schools is met through a partnership between school districts and the state. Figure 1 shows how these costs-about \$2 billion per year-have been shared from 1987-88 through 1998-99 (the latest period for which information is available).

As Figure 1 indicates, California school districts have paid about 60 percent of the total cost of school remodeling and construction, raising most of this money from property tax overrides and

developer fees. The state, in turn, has financed about 40 percent of school facility costs, using the proceeds of voter-approved general obligation bond programs.

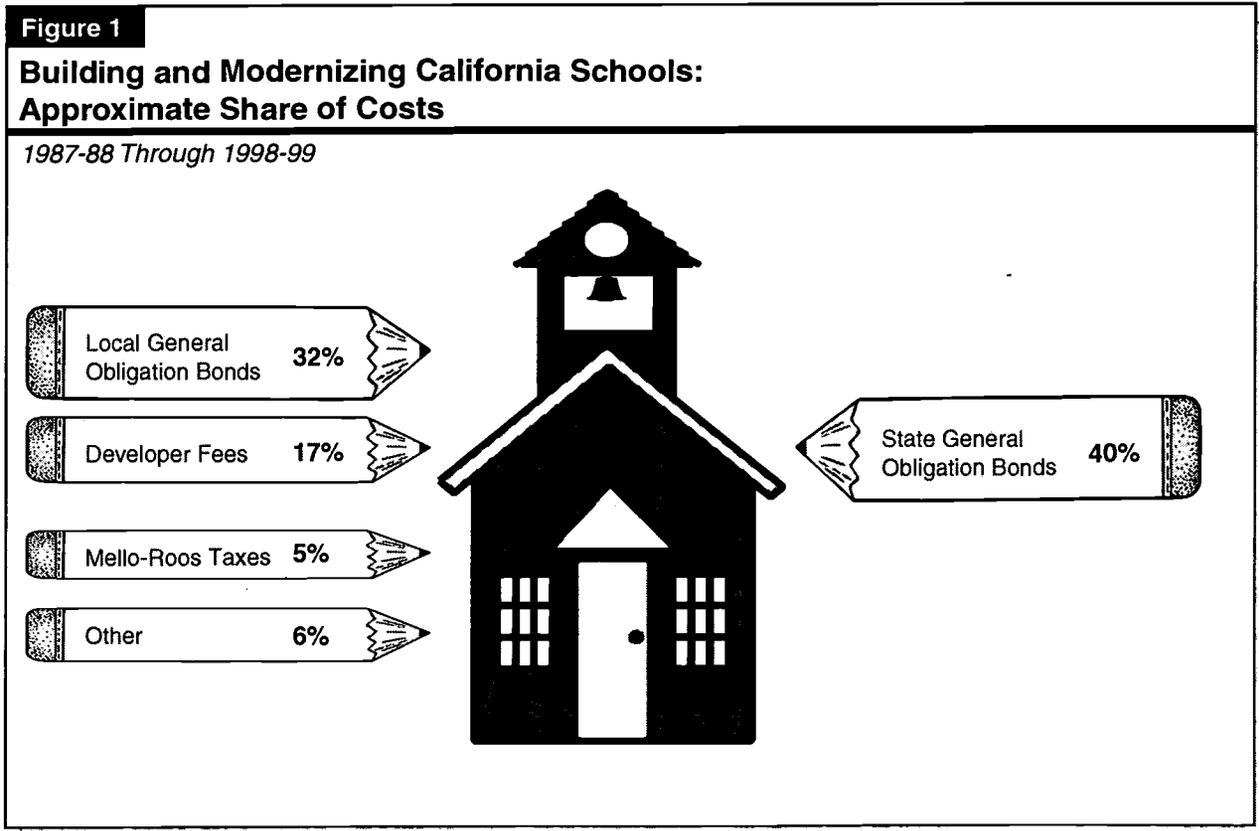
In reviewing Figure 1 and the 60-40 division of costs, it is important to note that these data reflect funding for the *entire* school capital outlay program, not any single project. For any *specific* school project, the financing mix may have been considerably different, and the state's share of cost may have ranged anywhere between zero and

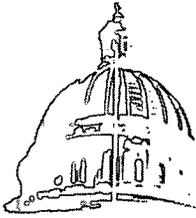
100 percent. Given the information in Figure 1 and making adjustments for inflation and changes in enrollment, we estimate that the average total expenditure per student for capital outlay has been less than \$450 per year.

Over the years, the Legislature has developed a variety of programs to allocate state school facility aid to districts. While elements of these programs have varied, the general format has stayed consistent. For example, the "SB 50" program (Chapter 407, Statutes of 1998 [L. Greene]), created to allocate Proposition 1A funds, is similar to previous state school construction programs in that it:

- ◆ Determines district eligibility for state funds based on measures of school facility capacity, enrollment, and age of existing structures.
- ◆ Allocates funds to specific school projects, largely on a first-come, first-served basis.
- ◆ Requires a local contribution of funds, unless certain hardship conditions exist.
- ◆ Is funded from voter-approved state general obligation bonds.

Overall, therefore, the state's approach to providing school capital outlay support can be characterized as a bond-financed, project-specific partnership.





## HOW WELL DOES EXISTING FINANCE SYSTEM WORK?

Without doubt, California's SB 50 program and previous state programs have played a key role in helping districts build their school projects. The state's approach also has allowed some low-wealth districts to construct critically needed educational facilities that otherwise may not have been possible. At the same time, however, the state's practice of offering aid through a bond-financed, project-specific partnership has significant shortcomings. We summarize these problems in Figure 2 and discuss them further below.

### **Never Sure When State Money Will Be Available**

Although districts typically incur capital outlay expenses every year—refurbishing or constructing facilities, acquiring land, or developing architectural plans—the state offers facility aid on an unpredictable basis. As Figure 3 shows, state voters have approved general obligation bonds for schools 11 times over the last 20 years and rejected them once. State bonds are usually fully depleted before additional funds are authorized by voters, leaving “hills and valleys” of revenue availability. This unpredictability in state funding impairs district capacity to plan, build schools, and raise supplementary local funds.

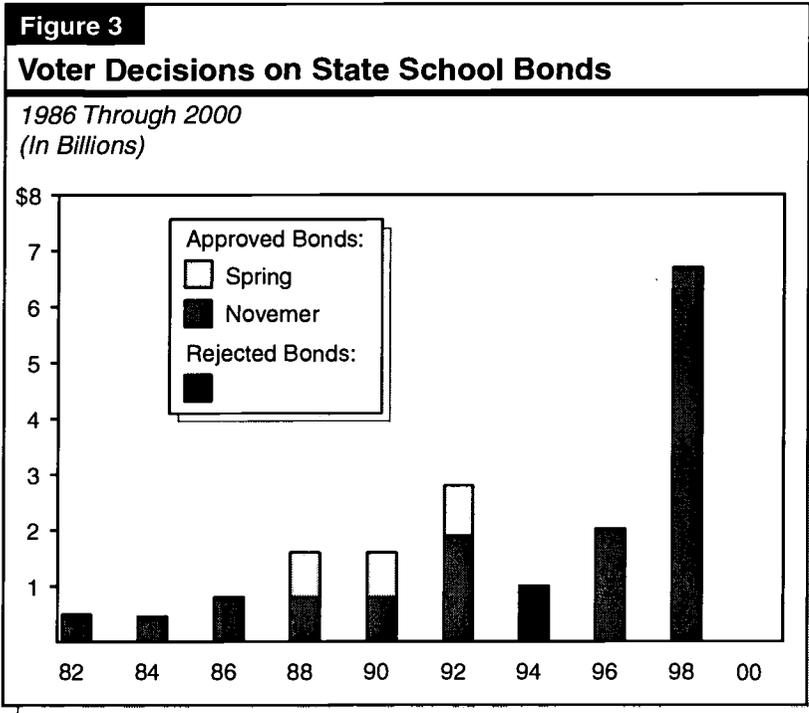
**Figure 2**

### **Problems in Current School Finance System**

- Unpredictability in state funding impedes planning and school construction.
- Process for allocating state funds is inherently imprecise and controversial.
- Rules of state-district partnership are not clear.

**Planning Amid Uncertainty.** Under the current school facility finance system, districts are never sure *when* additional state funding will be available, *how much* state money will be available, or what *rules* will govern the eligibility for this funding. This uncertainty hinders district ability to develop functional capital outlay plans— and poses risk to districts considering spending local funds in anticipation of future state funding.

**Delaying Needed Projects.** When districts submit eligible projects to the state *after* a bond measure's funds are depleted, districts may wait years until additional state funds are authorized by voters. For example, the State Allocation Board currently has a list of about \$500 million of approved modernization projects waiting for the state to make additional modernization funds available. Similarly, more than \$600 million of approved school facility projects (authorized



revenue measures, such as property tax debt overrides or Mello-Roos taxes, voters typically request information as to the scope of projects to be built or renovated. Lacking a predictable level of state facility aid, it is difficult for (1) districts to make commitments to voters regarding the extent of school projects to be completed, or (2) local residents to hold school districts accountable for the use of approved tax funds. Thus, the unpredictability in the financing system constrains an important dialogue between elected school board members and local voters.

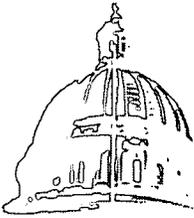
under the previous state school program) waited for state funding until Proposition 1A was approved. Confronted with these gaps in state funding for approved projects, some districts delay construction of needed school improvements. Other districts proceed with their approved projects by redirecting other local funds to cover 100 percent of project cost. Unless a district has abundant local resources, however, this practice of redirecting funds can delay *other* local school facility projects or educational programs.

**Raising Local Funds.** The hills and valleys in state school facility finance also hamper community decision making regarding facility funding. Specifically, when school districts propose local

**Determining the "Neediest" Is Difficult**

Regardless of the dollar value of school bonds approved by state voters, school districts inevitably exhaust the state bond's proceeds before all backlogged school projects have been funded. Thus, the state continually faces the need to "ration" its aid to districts.

Until recently, the state generally has offered its bond money on a first-come, first-served basis. This procedure maximized the allocation of state aid to districts with construction-ready projects. This approach also served as an implicit reward to districts that continued their capital outlay planning during the "down years" between state general obligation bond authorizations.



The state's first-come, first-served approach did not, however, necessarily allocate construction aid to districts where the need was greatest. In the case of the SB 50 program, for example, some districts (such as Irvine Unified) submitted applications and received state aid to build facilities for *all* eligible students. Other districts with large construction needs (such as Los Angeles Unified and Santa Ana Unified), in contrast, have been slower in submitting applications and have received funding for just 2 percent of their eligible population. In response to a lawsuit on this matter, the State Allocation Board reserved a portion of Proposition 1A's remaining funding for districts with large unmet facility needs (measured in terms of "priority points"). This decision to reserve funding, however, is being challenged in court by other school districts which developed construction plans under the assumption that the state would allocate bond funds on a first-come, first-served basis.

Regardless of the disposition of this matter, the practical reality is that fashioning a state policy to allocate project-specific aid to school districts is exceedingly difficult in a state as large and diverse as California. With more than 1,000 school districts and county offices of education, more than 8,000 schools, and nearly six million students, *any* centralized method for allocating state aid to specific school projects will be imprecise and controversial.

### **Responsibilities Obscured**

When the Legislature appropriates capital outlay funds for a state agency- such as money to

build a prison or an office building- the state controls the development of the architectural plans, construction, and operation of programs carried out within the facility's walls. Thus, the state is accountable for the condition of the facilities and the success of the programs using those facilities.

In the case of K-12 school facilities, the state provides a *share* of the cost of school projects, but school districts develop plans, oversee construction, and operate the programs after the schools are built. This reliance upon local school districts to implement the K-12 education program has been an integral part of California's system of education for over 100 years.

Whenever a program is funded as a partnership between levels of government, the terms of the partnership must be clear or accountability suffers. We find that this is the case for the state-district funding partnership for school capital outlay. Since 1986, the state voters have approved \$15.5 billion in school bonds, local voters have approved about \$18 billion of local bonds, and developers have paid about \$4 billion in developer fees. Yet, despite this school improvement funding, students in some districts attend very overcrowded schools or schools in great need of modernization. Which level of government should local residents hold accountable for these conditions? Under the current system, school districts blame the state for not providing money for all eligible projects. The state, in turn, blames districts for failing to submit applications quickly, or failing to raise the required local complement of funds.

Assigning responsibility for facility conditions is difficult under the current state-district funding partnership because the rules of the partnership are not clear. This blurred responsibility was demonstrated in recent lawsuits in which educa-

tional advocates sued the state for *its* failure to provide adequate educational facilities, and the state responded, in part, by suing 18 school districts for *their* failure to provide adequate educational facilities.

## DEVELOPING A NEW BLUEPRINT FOR SCHOOL FACILITY FINANCE

In order to begin to address the problems outlined above, we recommend the Legislature develop a new blueprint for the state-district school facilities partnership. In our view, this new blueprint should include three conceptual changes. First, the Legislature should create an *ongoing* revenue stream for school facility finance to replace its existing system of bond financing. Second, the Legislature should redirect the state's focus away from funding specific lists of school projects. In its place, the Legislature should establish a program oriented toward helping all districts provide educational facilities for children. Last, the state should clarify the state's and districts' roles and responsibilities regarding school facilities.

Below, we discuss these conceptual changes. In the following section, we outline a model program which would be consistent with this approach, as well as a transition program to assist districts with large backlogs of school improvement projects.

### Establish an Ongoing Revenue Stream

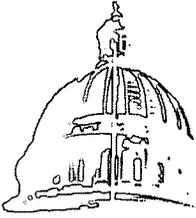
A key step toward improving California's program of school facility finance is for the Legislature to designate an ongoing revenue stream for

school capital outlay. Just as the state funds school support budgets on an ongoing basis, the state should appropriate a reliable amount of funding on an annual basis to pay a share of school capital outlay programs. This action would greatly improve district capacity to plan and implement local capital outlay programs on a timely and cost-effective basis.

### Focus on Children, Not Projects

The next step to improving school facility finance is for the Legislature to change its focus from funding specific school projects to funding the long-term cost of providing school facilities for children. As discussed earlier in this report, capital outlay expenditures are common events in a district's operations. Virtually every year, districts construct new schools, remodel facilities, acquire land, or develop architectural plans. Just as districts incur costs and make decisions annually to give children educational *programs*, districts incur costs and make decisions annually to provide children educational *facilities*.

Instead of funding specific projects, our suggested financing system would provide for an



ongoing stream of revenues to provide an adequate level of school facilities for students. The district could use this annual revenue stream to build, remodel, lease, or acquire land as the district determines appropriate.

How much money should the revenue stream provide? Clearly, every district has unique needs. Some districts must acquire land in expensive urban areas. Other districts must build schools for relatively few students, or in areas with severe environmental conditions. Calculating the actual school facility expense for every school in California would be immensely complicated- and resulting in many district claims that its construction costs were higher than average.

In general, we would urge the Legislature to minimize the differentiation among the revenue streams and provide one facility payment per student. The grant would be calculated at an amount sufficient to cover the cost of building and modernizing school facilities over a 50-year period.

### **Clarify Roles and Responsibility**

The third needed change to California's system of school facility finance is to clarify roles and

responsibilities. That is, which level of government shall be responsible for ensuring that districts have a sufficient number of schools and that facilities are modernized as needed?

While the Legislature could divide this responsibility in different ways, we see significant advantages to having school district responsibility for capital outlay be similar to its responsibility for program operations. Accordingly, our model assigns *districts* the responsibility for developing and implementing school capital outlay programs. The state's role, in turn, would be to support district efforts by:

- ◆ Ensuring the availability of a predictable source of revenues.
- ◆ Supplementing low-wealth districts' revenue raising efforts.
- ◆ Establishing an accountability program to clarify the responsibility of districts and provide for an ongoing dialogue between school officials and local residents regarding school facilities.

## **APPLYING THE BLUEPRINT**

The three concepts described in the blueprint above could be implemented in many ways. Below, we sketch a model program that would be consistent with the blueprint and which the Legislature could phase in over a period of time.

Our model program includes three ongoing components:

- ◆ A revenue stream to cover the annual expense of school capital outlay programs. In this report we refer to this revenue

stream as the California Annual School Allotment (CASA). This program would be a joint financial responsibility of districts and the state.

- ◆ A state-funded program to augment the revenue raising ability of low-wealth districts. We refer to this funding as the Ability-to-Pay Adjustment.
- ◆ An accountability program to clarify state and local responsibilities regarding educational facility planning and implementation.

Finally, our model program provides for a short-term transition program to assist districts with significant immediate facility needs. The goal of the transition program is to bring school districts across the state to more comparable “starting points” so that facility needs can be addressed by the annual funding stream.

### **CALIFORNIA ANNUAL SCHOOL ALLOTMENT**

Our model program begins by calculating the dollar amount which- if provided in the form of an annual revenue stream- should be sufficient to pay for districts' long-term capital outlay needs. Specifically, our goal is to identify the annual per pupil amount necessary to allow districts to acquire land and build, modernize, or lease school facilities as needed. This annual sum serves as the basis for our proposed new school facility funding model, CASA. (How the CASA is split between the state and school districts is discussed later.)

To calculate an amount for CASA, we compared school grants approved by the State Allocation Board (including the average amount that the board “adds on” to grants for site-specific conditions) with school construction costs across the nation and in California. Our review found some variation in the cost of school facilities, reflecting local conditions and local educational and community preferences. Overall, however, the grant levels currently used by the State Allocation Board appear to be a reasonable basis for the CASA. We also assumed that buildings last for 50 years with renovation required midway through that period.

Based on these assumptions, we estimate that the average annual facility expense for a child in a unified school district is about \$550. (This report focuses on unified districts because they serve 70 percent of the state's enrollment. We recognize that the average expense for high school and elementary school districts would be somewhat higher and lower, respectively. Adjustments would need to be made for such districts.) This \$550 annual sum should be sufficient to pay for a unified district's full capital outlay program, largely on a pay-as-you-go basis. The \$550 per child amount also provides resources to allow districts to borrow money to undertake part of their capital outlay program- and pay interest on these loans.

Under our proposed funding program, districts would have wide flexibility over the use of CASA funds. In one year, for example, a district might use all CASA revenues to build a high school. In other years, the district might save its CASA revenues to buy land for future elementary schools.



Figure 4 shows how three different districts could use CASA funding of \$550 per student to support different capital outlay programs. It shows, for example, that over the course of ten years a fast-growing suburban district could use CASA funding to pay *cash* for the projects listed under "Building Program A" (build six new elementary schools, modernize a middle school, and build an additional high school). Alternatively, should this suburban district need to modernize some of its existing elementary schools, it could implement "Building Program B" using CASA funding.

In reviewing Figure 4, it should be noted that the \$550 per pupil CASA level supports a *higher* level of capital outlay spending than districts typically have undertaken in the past. This is because CASA is set at an amount sufficient to support a capital outlay program that (1) minimizes school overcrowding and (2) provides for modernizing facilities on a timely basis- goals that many districts have not been able to achieve in the past.

### State and Local Shares of CASA

As shown in Figure 1 (please see page 3), school districts and the state have contributed significant sums to build and improve schools over the years,

sharing the cost of school capital outlay programs on about a 60 percent (district) and 40 percent (state) basis. The cost of *specific* projects, however, has been shared in different ways. Under the SB 50 program, for example, the state funds: (1) 50 percent of the cost of eligible school construction projects, (2) 80 percent of the cost of eligible modernization projects, and (3) up to 100 percent of the cost of eligible projects in districts experiencing a financial hardship.

There is no "right" percentage split between the state and school districts for CASA. For purposes of simplicity, our model program assumes a splitting of the cost of CASA evenly between the

Figure 4			
CASA Supports a Variety of Capital Outlay Programs			
Spending Over a Ten-Year Period			
	Existing Schools	Building Program A	Or Building Program B
<b>Large Urban District With Steady Enrollment<sup>a</sup></b>			
Elementary schools	36	Build 1 new, modernize 35	Modernize 14
Middle schools	6	Replace 1, modernize 5	Replace 3
High schools	6	Replace 1, modernize 5	Replace 3
<b>Suburban District With Rapid Growth<sup>b</sup></b>			
Elementary schools	14	Build 6 new	Build 4 new, modernize 5
Middle schools	3	Modernize 1	Build 1 new
High schools	2	Build 1 new	Build 1 new
<b>Small, Rural Districts With Declining Enrollment<sup>c</sup></b>			
Elementary schools	3	Build 1 new, modernize 1	Modernize 3
Middle schools	1	Modernize 1	Build 1
High schools	1	Modernize 1	Modernize 1

<sup>a</sup> Enrollment of 33,000 students over the period.  
<sup>b</sup> Initial enrollment of 14,000 students, growing by 6 percent annually.  
<sup>c</sup> Initial enrollment of 2,600 students, declining by 2.5 percent annually.

state and school districts- the same way new schools are currently funded under SB 50.

Under this assumption, how much would CASA cost the state? Given the state's current enrollment of 5.9 million students, an estimate of CASA of \$550 per pupil, and a 50 percent sharing relationship (\$275 each for the state and the district), the state cost for this program would be about \$1.6 billion annually. As explained in the box below, this \$1.6 billion cost is somewhat higher

than the state's existing debt service obligations for school bonds, but this cost differential is not likely to persist over time.

**Providing Certainty**

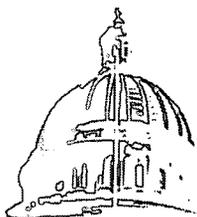
Under our model program, the state is responsible for providing its share of CASA to districts on an annual basis. For this program to succeed, CASA must offer school districts the fiscal stability to effectively plan for the long term. From a district perspective, the need for stability concerns both

**COMPARING STATE COSTS UNDER CASA TO CURRENT K-12 SCHOOL FACILITIES COSTS**

The state currently pays about \$1 billion in debt service on K-12 school bonds- or about \$600 million *less* than the state's cost for the proposed CASA program. This cost difference between these programs is somewhat overstated, however, because:

- ◆ Some of Proposition 1A's bonds have not been sold yet. Within a couple of years, when all the bonds are sold, the state's annual debt service will grow to about \$1.2 billion.
- ◆ If the state continued its recent rate of bond issuance, its debt service costs would increase significantly. For example, if voters approved another bond of the magnitude of Proposition 1A in 2002, the state's annual debt service cost would increase by about \$500 million.
- ◆ In addition to paying debt service for school facilities, the state also pays about \$180 million annually for school facility deferred maintenance. These funds help correct conditions that resulted, in part, due to unpredictability of state school capital outlay funding- and the failure to clearly assign responsibility for school facility maintenance and construction. The CASA program would correct these problems and mitigate the need for deferred maintenance appropriations.

Thus, while the state's cost to service debt on school bonds appears to be less than its cost for the proposed CASA program, this cost differential is somewhat overstated and may not continue over time.



facilities management and financing decisions. For example, if a district borrows money for construction- expecting to repay the debt from the state's portion of CASA- any disruption to the funding stream would present a threat to the district's financial plan or even solvency.

While one Legislature cannot bind future Legislatures, there are a variety of statutory and contractual means that could be used to add weight to the state's ongoing funding commitment to locals. One statutory approach would be to create a continuous appropriation for CASA- similar to the existing continuous appropriation for revenue limit funding to school districts. While not immutable, such a mechanism would make CASA funding less likely to be disrupted by annual conflicts in the budget process. Regardless of the specific approach employed, the Legislature should take steps to ensure the state will be a reliable partner.

### **Districts Not Raising Local Share of CASA**

Under our model, the state is responsible for paying 50 percent of the cost of providing an adequate level of school facilities for children. Districts, in turn, must raise local money to generate the other half of CASA revenues. Should a district fail to raise its share of CASA, then the *district* would be responsible for managing school facility needs within available funds. (Districts with limited ability to raise local funds are addressed later in this report.)

Districts which do not raise their full local share of CASA would not lack options, however. As

discussed previously, the CASA amount (\$550 per child annually) is significantly higher than most school districts' facility spending over the last dozen years. Many districts could maintain their existing level of school facility expenditures by raising less than their 50 percent share. The key point, however, is that the responsibility for addressing how to best meet local school facility needs would rest with the local community- not the state.

### **Would CASA Affect Proposition 98?**

In 1988, state voters enacted Proposition 98 as an amendment to the California Constitution. This act establishes a minimum level of funding for K-12 schools and the California Community Colleges. The minimum level is determined by taking the prior-year funding for these programs from the state General Fund and local proceeds of taxes and adding adjustments for growth in the number of pupils and in the state's economy. The Legislature may provide funding *above* this minimum level. However, doing so increases future state funding obligations under Proposition 98.

Since the state has never provided direct General Fund appropriations for school construction, it is unclear whether such appropriations would be counted within or outside of Proposition 98. Figure 5 provides points on both sides of the issue.

We believe that a credible argument can be made for direct spending on school facilities being outside of Proposition 98. If state appropriations for CASA were treated this way, the state would maintain some fiscal flexibility in that the Proposition 98

base would not be permanently increased. Our model, however, can work under either scenario.

**ABILITY-TO-PAY  
ADJUSTMENT PROGRAM**

The CASA funding model relies heavily on a *shared* state and local fiscal responsibility for school construction. For such a program to work, school districts must have the financial wherewithal to support their half of the program. As noted earlier in this report, the two largest sources of local funding for school facilities are property tax debt overrides and developer fees. Together,

these revenue sources accounted for about 85 percent of local school facility funding between 1987-88 and 1998-99. Below, we examine local capacity to raise the local share of CASA (\$275 annually per child) from these revenue sources.

**Relatively Few Districts Receive High Developer Fees**

State law authorizes school districts to impose a prescribed level of fees to offset school facility costs associated with residential or commercial development. Using State Department of Education data, we examined developer fees over a five-

year period and compared every district's average annual amount with the local share of CASA. Figure 6 (see page 14) provides information on the amount of developer fees districts have collected, on an annual basis, between 1994-95 and 1998-99. (This figure also provides information on property tax overrides, which we discuss in the next section.) The districts in the figure are ranked by the dollar amount of developer fees collected per child, and then grouped into quartiles, so that each quartile has approximately the same number of districts.

**Figure 5**

**Do State Appropriations for Capital Outlay Increase the Proposition 98 Guarantee?**

**Arguments That They Would**

- Proposition 98 specifies that state General Fund spending on school districts, county offices of education, and community college districts are included within Proposition 98.
- Proposition 98 does not explicitly exclude capital outlay funding from these calculations.

**Arguments That They Would Not**

- The State Constitution refers to the guarantee as "moneys applied by the State for the support of school districts and community college districts." The word "support" usually refers to operating expenses, rather than capital outlay.
- Proposition 98's implementing statute excludes from calculations of the guarantee "any appropriation made to service any public debt approved by the voters of this state." At the time of the enactment, general obligation bonds were the only means the state used to fund school capital outlay, and thus, may have been understood as synonymous to capital outlay.

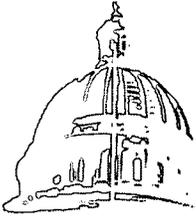


Figure 6 displays the wide variation in district developer fee revenues. This variation reflects district policies (not all districts impose developer fees or impose them at the maximum amount), as well as variation in the extent of development in communities.

As Figure 6 indicates, the average developer fee received by the bottom quartile of districts is only \$3 per student per year, while the top quartile received an average of \$187. Statewide, half of the districts received less than \$38 per student. From these data, therefore, we conclude that most districts would need to collect the vast majority of their local CASA amount from sources other than developer fees.

### Most Districts Can Raise Significant Sums From Debt Overrides

The California Constitution, as amended in 2000 by Proposition 39, authorizes school districts to impose property tax debt overrides for school capital outlay with the approval of 55 percent of local voters. While the Constitution does not specify a maximum tax override rate, unified school districts are prohibited from proposing on any single ballot a tax increase projected to be more than \$60 per \$100,000 in assessed valuation. Voters typically approve these property tax debt overrides for a term of about 30 years.

The amount of funding generated annually by a property tax debt override depends on the assessed value of local property and the rate approved by local voters. Figure 6 also presents information on district capacity to raise school capital outlay funds from a property tax override set at \$60 per \$100,000 in valuation. While this figure shows that most districts in the top three quartiles could raise significant sums from a property tax override, the bottom quartile of districts would raise less than \$153 from this source. Unless these districts received significant sums from developer fees, Mello-Roos taxes, federal grants, or other sources, these districts might find it very difficult to raise their full local share of CASA.

**Figure 6**

**District Revenue Raising: Actual Developer Fees and Property Tax Potential**

District Group	Range	Average for Quartile
<b>Average Annual Developer Fees Per Child<sup>a</sup></b>		
Highest quartile	\$86 to \$1,113	\$187
Second quartile	39 to 85	57
Third quartile	13 to 38	25
Bottom quartile	0 to 12	3
<b>Potential Revenue From Property Tax Override Per Child<sup>b</sup></b>		
Highest quartile	\$464 to \$30,270	\$1,340
Second quartile	252 to 454	341
Third quartile	153 to 251	197
Bottom quartile	40 to 152	106

<sup>a</sup> 1994-95 through 1998-99.  
<sup>b</sup> Based on 1998 assessed valuation (AV) and a tax override of \$60 per \$100,000 in AV.

### Ability-to-Pay Adjustment

Given disparities in local ability to pay discussed above, our model program includes a supplemental component to assist all districts with

severely limited access to local revenues. While there are many ways to design such a supplementary program, our model provides a program of “gap” financing, targeting state resources to districts with the least ability to raise revenues from local property taxes and developer fees. Specifically, under our model, the state would fund the *difference* between the local share of CASA and the revenues a district could raise by (1) imposing a \$60 per \$100,000 in valuation property tax and (2) collecting developer fees at the full rate prescribed by law. We estimate that this program would cost the state about \$250 million to \$350 million annually and would provide dependable assistance to a broad range of districts with limited ability to raise local funds.

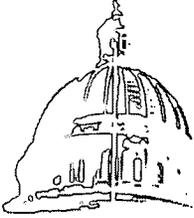
Would our model *require* a low-wealth district to impose a \$60 per \$100,000 property tax override and developer fees at the maximum rate? No, but the state’s Ability-to-Pay Adjustment would *assume* that the community had access to local revenues of this magnitude. For example, suppose two low-wealth districts could raise \$175 per student by setting the property tax override and developer fees at these rates. The state’s Ability-to-Pay Adjustment, therefore, would be \$100 per student (this is the \$275 local share of CASA *less* the \$175 in local revenue-raising capacity). The contribution of the state’s \$100 per child Ability-to-Pay Adjustment, therefore, would supplement local revenue-raising efforts and give the districts the practical capacity to provide an array of educational facilities for their children.

Like all districts, however, the decisions of these low-wealth districts would reflect community perspectives and priorities. One of the low-wealth districts, for example, might raise *more* than \$175 per student. This district, after receiving the state’s share of CASA (\$275) and the state’s Ability-to-Pay Adjustment (\$100), would have access to relatively high levels of capital outlay resources. The other low-wealth district, in contrast, might collect *less* than \$175 per child. While this district would still receive the state’s share of CASA (\$275) and the state’s Ability-to-Pay Adjustment (\$100), the district’s total revenues would be less than \$550 per child. The district would need to adjust its capital outlay program accordingly. Regardless of local decision making, the state’s purpose under the Ability-to-Pay Adjustment would be to enable all districts to have the capacity to provide a suitable capital outlay program.

### **PROMOTING ACCOUNTABILITY**

The proposed annual revenue stream represents a major investment and commitment to quality schools in California- and a significant increase in discretion for school districts. This program, managed with care and flexibility by districts, should provide quality educational facilities on a timely basis at reasonable costs. Without careful management, however, districts might not realize these goals. This need for good management is particularly relevant for capital outlay and maintenance programs because these programs are inherently long term in nature.

To maximize the likelihood of program success and clarify responsibility for program outcomes,



our model includes an accountability program, enacted along with the CASA and Ability-to-Pay Adjustment components. This accountability program would clarify the long-term direction the districts were taking to provide and maintain their facilities. At a minimum, we suggest that the following three provisions be included in the accountability program and required as a condition for receipt of state CASA and Ability-to-Pay Adjustment funding.

**Maintain Facilities Development Fund.** Districts should deposit state and local CASA and Ability-to-Pay Adjustment funding into a local Capital Development Fund. Expenditures from this fund would be limited to school facility and school site construction, acquisition, improvement, or lease. Districts could not use these funds for nonfacility-related expenditures such as textbooks or salaries. Information regarding revenues to and expenditures from this fund should be published annually, along with a calculation of the extent to which the district has funded its local share of CASA.

**Fund Facility Maintenance.** Given the magnitude of the proposed investment in school capital outlay facilities under our model program, it is essential that districts properly maintain the facilities to ensure their full useful life. Districts should set aside a prescribed annual contribution from their operating budget to fund facility maintenance, or certify at a public hearing that a lower amount is sufficient to meet their maintenance needs. Any certification by the district should be approved by the school board annually and be

accompanied by sufficient documentation to allow local community oversight.

**Develop Capital Plan.** To guide long-term facility expenditures, districts should prepare a five-year capital plan and update it periodically. The plan should document how the district will provide facilities for its expected enrollment and include information on the need for new construction, modernization, site acquisition, and special repair projects on a school-by-school basis. The district should explain whether the revenues in the district's Capital Development Fund will be sufficient to provide the proposed improvements and, if not, how the district will accommodate a revenue shortfall. Finally, the school board should take a formal action to approve the capital plan and to certify that the plan will meet the district's facility needs.

#### **State Technical Assistance and Oversight**

As noted previously, our model places the responsibility for planning, building, and maintaining school facilities in the hands of local districts. While the state's primary role in our model is providing financial assistance to districts, the state may also want to consider targeted roles in the areas of technical assistance and oversight. For example, many districts- especially the hundreds of smaller districts in the state- may need basic assistance in tracking their physical assets, developing capital plans, arranging for local financing, and overseeing facilities construction. The state could provide technical assistance- in such forms as primers, regional workshops, and web site assistance- on these topics. With regard to over-

sight of districts' management of their facilities responsibilities, we have assumed that this would be performed primarily by residents of the local school districts. For this oversight to work, however, these residents must have adequate information. This is why in the sections above we have stressed the importance of school districts providing information to the public regarding their facilities activities. The Legislature, however, may want to consider supplementary forms of oversight. For example, the Legislature could consider developing an oversight process similar to the one being used for district support budgets. Under this process, each district's support budget is reviewed by its county office of education.

### **TRANSITION FUNDING**

In addition to the ongoing programs discussed above, our proposed model program provides short-term transition funding to districts that have large unmet facilities needs. The purpose of this transition program is to bring district facilities across the state to more comparable "starting points." After completing the school improvement projects supported by the transition program, school districts would be able to fund their remaining facilities needs- as well as future school facility needs- through the ongoing CASA and Ability-to-Pay Adjustment programs.

To support the transition program, our model would refocus the distribution of funds from the next state school bond measures. It is important to note that once this transition program was funded, the Legislature would not need to authorize additional state bonds for school facilities in the

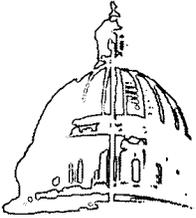
future. Instead, districts could support their capital outlay programs from state and local CASA funds and the Ability-to-Pay Adjustment program.

### **A Look at School District Facility Needs**

To target transition program funds to districts with the largest unmet facility needs, we reviewed information provided by school districts to the State Allocation Board. As stated earlier in this report, the State Allocation Board indicates that districts have identified about \$30 billion of needed new construction and modernization projects, with the state's share of this cost exceeding \$17 billion.

Examining this identified school facility need more closely, Figure 7 (see page 18) displays information on districts' current need to build new schools or modernize facilities for students as a percentage of a district's total enrollment. As the figure indicates, most districts' need for new construction and modernization projects affects a relatively small percentage of their enrollment. Specifically, over 800 districts (or about 80 percent) have a need for new facilities for less than 20 percent of their enrollments. Similarly, more than 600 districts (about 60 percent) have modernization needs for less than 20 percent of their enrollments.

In the case of some districts, however, the need to construct or modernize schools affects a large percentage of their enrollment. Specifically, 98 districts need to build schools to house more than 40 percent of their enrollments. (New construction enrollment percentages usually reflect *projected* enrollment five years from now and thus,



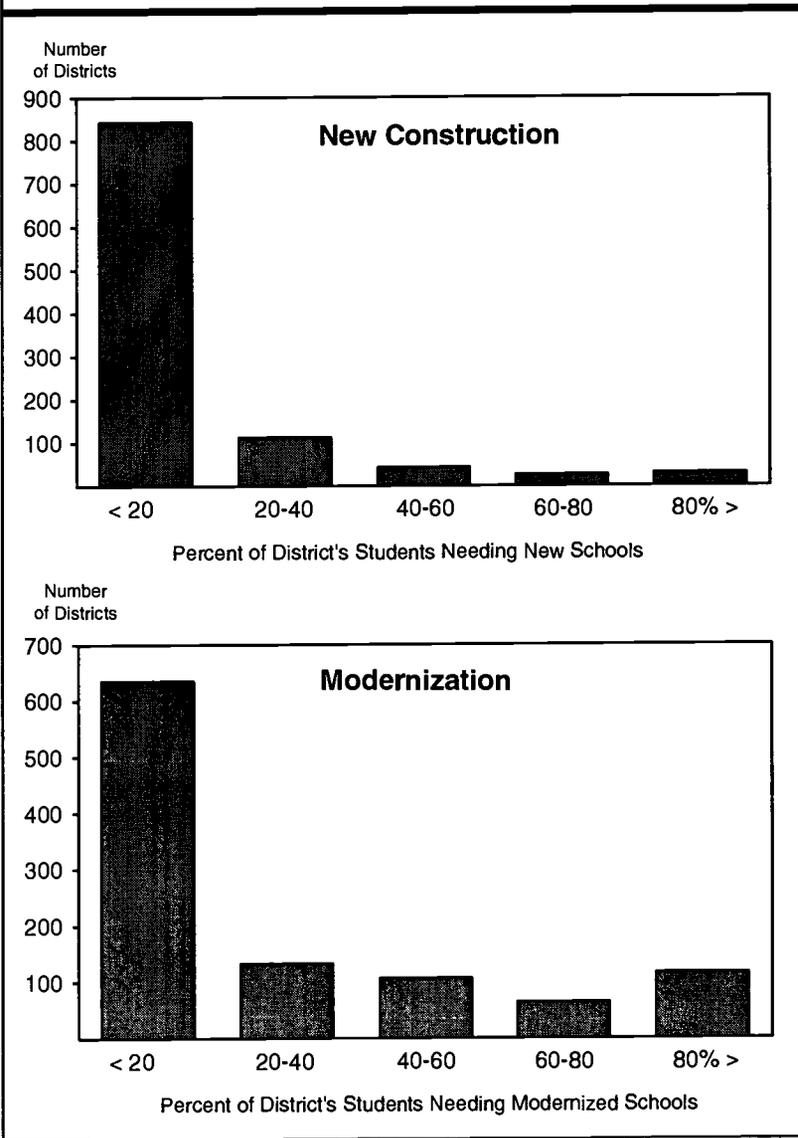
slightly overstate the extent of school facility problems today.) In addition, 286 districts need to modernize facilities for more than 40 percent of their enrollments.

This variation in facility needs varies across geographical areas and size of districts. For example, although the largest districts in the state (with enrollments greater than 30,000) have an

average need to build new schools for 21 percent of their students, Elk Grove, Capistrano, and Santa Ana Unified School Districts need to build schools for more than 40 percent of their students. By comparison, San Juan, Sacramento City, and Compton Unified School Districts need new schools for fewer than 4 percent of their students.

**Figure 7**

**Most Districts Need New or Modernized Facilities For Less Than 20 Percent of Their Students**



**Need for Transition Funding**

In developing CASA, we assumed some districts would need to address pressing school improvement projects. The CASA amount includes funding for districts to pay cash or finance these projects. The CASA amount, however, is not sufficient to address a very large backlog of construction or modernization projects in any district. Specifically, we estimate that districts with new construction or modernization needs exceeding 20 percent of their enrollment might experience difficulties meeting their capital outlay needs under CASA. (We recognize that individual districts

have unique circumstances making such a statewide estimate difficult.)

For this reason, our model program includes transition funding in an attempt to bring districts' facility conditions to a level that could be accommodated within CASA grant levels. Specifically, our transition program provides funding to any district that has facility needs for more than 20 percent of its students. The amount of state funding for these projects would reflect the SB 50

grant levels (including the average "add-on" amounts), and the number of students in a district needing new or modernized facilities (over the 20 percent threshold). Our analysis indicates that such a program would cost the state about \$6 billion which could be financed within the next couple of state bond issues. Districts could use these transition monies, matched by their local funds, to address their most pressing facility needs.

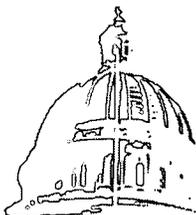
## TAKING THE FIRST STEPS IN 2001

Proposals for major changes in state policy and finance inevitably pose significant implementation challenges, particularly when viewed against a backdrop of economic and expenditure uncertainty such as exists today. The model program suggested in this report- or any school capital outlay program structured along these lines- would not be an exception.

Of all the challenges associated with providing an annual program of school facilities support, the most difficult for the Legislature would be the demand for state resources. Specifically, funding the annual revenue stream would increase state costs significantly because the state would be supporting school facility programs on a "pay-as-you-go" basis *at the same time* it was making debt payments on school bonds issued to finance programs in the past. Thus, until the state retired its school bond debt, it would be paying for two school construction programs at once.

The model program outlined in this report also contains provisions which would increase the state's overall support for school capital outlay. Specifically, the model program proposes that the state (1) pay *50 percent* of school facility capital outlay costs, rather than the 40 percent it has paid in the past; (2) support a more comprehensive school capital outlay program; and (3) provide additional financial assistance to low-wealth districts. Some of these increased costs would be offset by the state avoiding the need to make interest payments on future bond measures. In addition, the state could avoid payments it is currently making to school districts for deferred maintenance. Still, the state's overall costs under a program containing these provisions would be higher than the state's costs under its existing school facilities program.

Despite the increased costs the state would face, we believe that the significant advantages



associated with transforming the existing financing system into one that acknowledges long-term capital outlay costs, focuses accountability, assists poorer communities, and provides significant district flexibility merits going forward with the program- even if the state cannot support full implementation of the program immediately. We note that many other important state policy changes have not been implemented at once, but phased in as resources permitted: state assumption of county trial court costs, reduction of the vehicle license fee, and expansion of the Healthy Families Program.

Accordingly, we recommend the Legislature begin the process of remodeling California school facilities finance by taking the three steps described below.

**Enact Legislation to Create Programs.** The first step would be for the Legislature to hold hearings and enact the CASA, Ability-to-Pay Adjustment, and accountability programs. These actions would declare the Legislature's long-term intent regarding financing K-12 school facilities. While this report suggests some key parameters and policy choices for the new programs, much additional work would be needed to "develop" the detail. The

Legislature also may wish to consider options for reducing the CASA program costs. For example, it could set the state's share of CASA costs at some percentage below 50 percent.

**Identify Transition Program Funding.** The Legislature would need to identify the future bond measures and/or cash reserves to fund the transition program. Regardless of how the Legislature chooses to fund the transition program, we recommend the monies be allocated to districts with unmet facility needs exceeding 20 percent of their enrollment. Such an allocation would bring school districts across the state to more comparable "starting points" and facilitate the future success of the CASA program.

**Phase In CASA and Ability-to-Pay Adjustment.** Given the costs associated with the CASA and Ability-to-Pay Adjustment programs, the Legislature most likely would need to phase in this funding over a several-year period. To give the administration direction in budget development, we recommend the Legislature enact a timetable for this program implementation and specify whether it wishes to use Proposition 98 or non-Proposition 98 funds for this purpose.

## CONCLUSION

In recent years, the Legislature and Governor have devoted considerable attention to improving K-12 education. For any education program to realize its potential, however, students and teachers require adequate facilities. The current state-district partnership does not support the ongoing planning and development of needed school facilities. As a result, about one out of three California students attend overcrowded schools or schools needing modernization or replacement.

Given the problems in California's approach to financing school construction, we recommend the

Legislature not respond to these facility needs by continuing to do "more of the same." Instead of placing more school bonds on the state ballot and allocating funds on a project-specific basis, we recommend the Legislature develop a new blueprint for assisting school facilities finance. In our view, this new blueprint should offer all school districts the practical capacity to build and modernize school facilities on an ongoing basis and focus accountability on districts for results.



#### **Acknowledgments**

This report was prepared by Marianne O'Malley, Chris Guyer, and Erik Skinner. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.



#### **LAO Publications**

To request publications call (916) 445-2375. This report and others, as well as an E-mail subscription service, are available on the LAO's Internet site at [www.lao.ca.gov](http://www.lao.ca.gov). The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.



**U.S. Department of Education**  
Office of Educational Research and Improvement (OERI)  
National Library of Education (NLE)  
Educational Resources Information Center (ERIC)



# REPRODUCTION RELEASE

(Specific Document)

## I. DOCUMENT IDENTIFICATION:

Title: A New Blueprint for California School Facility Finance	
Author(s): Hill, Elizabeth G.	
Corporate Source: California Legislative Analyst's Office	Publication Date: 2001

## II. REPRODUCTION RELEASE:

In order to disseminate as widely as possible timely and significant materials of interest to the educational community, documents announced in the monthly abstract journal of the ERIC system, *Resources in Education* (RIE), are usually made available to users in microfiche, reproduced paper copy, and electronic media, and sold through the ERIC Document Reproduction Service (EDRS). Credit is given to the source of each document, and, if reproduction release is granted, one of the following notices is affixed to the document.

If permission is granted to reproduce and disseminate the identified document, please CHECK ONE of the following three options and sign at the bottom of the page.

The sample sticker shown below will be affixed to all Level 1 documents

The sample sticker shown below will be affixed to all Level 2A documents

The sample sticker shown below will be affixed to all Level 2B documents

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

\_\_\_\_\_

Sample

\_\_\_\_\_

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

1

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL IN MICROFICHE, AND IN ELECTRONIC MEDIA FOR ERIC COLLECTION SUBSCRIBERS ONLY, HAS BEEN GRANTED BY

\_\_\_\_\_

Sample

\_\_\_\_\_

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

2A

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

\_\_\_\_\_

Sample

\_\_\_\_\_

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

2B

Level 1

Level 2A

Level 2B

Check here for Level 1 release, permitting reproduction and dissemination in microfiche or other ERIC archival media (e.g., electronic) and paper copy.

Check here for Level 2A release, permitting reproduction and dissemination in microfiche and in electronic media for ERIC archival collection subscribers only

Check here for Level 2B release, permitting reproduction and dissemination in microfiche only

Documents will be processed as indicated provided reproduction quality permits. If permission to reproduce is granted, but no box is checked, documents will be processed at Level 1.

I hereby grant to the Educational Resources Information Center (ERIC) nonexclusive permission to reproduce and disseminate this document as indicated above. Reproduction from the ERIC microfiche or electronic media by persons other than ERIC employees and its system contractors requires permission from the copyright holder. Exception is made for non-profit reproduction by libraries and other service agencies to satisfy information needs of educators in response to discrete inquiries.

Sign here, → please

Signature:	Printed Name/Position/Title: Jim Stanley Production Sponsor	
Organization/Address: 925 L Street 6th Fl SPC, CA 95814	Telephone: 916 445-2375	FAX: _____
	E-Mail Address: _____	Date: 6/15/01



### III. DOCUMENT AVAILABILITY INFORMATION (FROM NON-ERIC SOURCE):

If permission to reproduce is not granted to ERIC, or, if you wish ERIC to cite the availability of the document from another source, please provide the following information regarding the availability of the document. (ERIC will not announce a document unless it is publicly available, and a dependable source can be specified. Contributors should also be aware that ERIC selection criteria are significantly more stringent for documents that cannot be made available through EDRS.)

Publisher/Distributor:
Address:
Price:

### IV. REFERRAL OF ERIC TO COPYRIGHT/REPRODUCTION RIGHTS HOLDER:

If the right to grant this reproduction release is held by someone other than the addressee, please provide the appropriate name and address:

Name:
Address:

### V. WHERE TO SEND THIS FORM:

Send this form to the following ERIC Clearinghouse:	<b>National Clearinghouse for Educational Facilities</b> <b>National Institute of Building Sciences</b> 1090 Vermont Ave., N.W., Suite 700 Washington, DC 20005-4905
---	---

However, if solicited by the ERIC Facility, or if making an unsolicited contribution to ERIC, return this form (and the document being contributed) to:

#### ERIC Processing and Reference Facility

4483-A Forbes Boulevard  
Lanham, Maryland 20706

Telephone: 301-552-4200

Toll Free: 800-799-3742

FAX: 301-552-4700

e-mail: [ericfac@inet.ed.gov](mailto:ericfac@inet.ed.gov)

WWW: <http://ericfac.piccard.csc.com>