1982

State School Building Lease-Purchase Bond Law Of 1982.

1 State School Building Lease-Purchase Bond Law of 1982

Official Title and Summary Prepared by the Attorney General

FOR THE STATE SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1982. This act provides for a bond issue of five hundred million dollars ($500,000,000) to provide capital outlay for construction or improvement of public schools.	
AGAINST THE STATE SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1982. This act provides for a bond issue of five hundred million dollars ($500,000,000) to provide capital outlay for construction or improvement of public schools.	

FINAL VOTE CAST BY THE LEGISLATURE ON AB 3006 (PROPOSITION 1)

Assembly—Ayes, 68	Senate—Ayes, 28
Noes, 1	Noes, 5

Analysis by the Legislative Analyst

Background:

Prior to the passage of Proposition 13 on the June 1978 ballot, local school districts financed the construction of elementary and secondary school facilities in one of two ways. They either issued school construction bonds to secure the money needed to pay for the facility or obtained a loan from the state under the State School Building Aid program. (The state raised the money loaned to applicant districts from the sale of state general obligation bonds.) In each case, district voters had to approve borrowing by the district. Funds borrowed by school districts to finance the construction of school facilities were repaid from the district's property tax revenues.

A third alternative for financing school facilities—the State School Building Lease-Purchase Act of 1976—was not utilized by school districts because necessary bonding authority was denied by the voters.

Proposition 13 added Article XIII A to the State Constitution. This article eliminated the ability of local school districts to levy additional special property tax rates of the type previously used to pay off bonds or loans. As a result, school districts can no longer issue new local construction bonds or participate in new State School Building Aid projects. Consequently, the State School Building Lease-Purchase Act was substantially revised to provide the primary means for financing school construction.

Under the State School Building Lease-Purchase program, the state funds the construction of new school facilities and rents them, for a nominal fee, to local school districts under a long-term lease. Title to the facility is subsequently transferred to the district no later than 40 years after the rental agreement has been executed. Current law appropriates an additional $200 million to this program in each of the following two fiscal years: 1983–84 and 1984–85.

The total amount of additional school facilities needed to accommodate current enrollment in the state is unknown but is probably substantial. For the 1982–83 fiscal year the Legislature has provided $100 million to the State School Building Lease-Purchase program for use in financing school facilities construction. At the present time school district applications for state funding of school construction projects total between $450 million and $500 million.

Proposal:

This measure, the State School Building Lease-Purchase Bond Law of 1982, would authorize the state to sell $500 million worth of general obligation bonds to provide funds for the construction of elementary and secondary school facilities. (A general obligation bond is backed by the full faith and credit of the state, meaning that, in issuing the bonds, the state pledges to use its taxing power to assure that sufficient funds are available to pay off the bonds.) Under existing law, revenues deposited in the state's General Fund would be used to pay the principal and interest costs on these bonds.

The measure also would authorize the State School Building Lease-Purchase program to borrow moneys from the state's General Fund in order to finance school facilities construction prior to when the proceeds from the bond sales are received. During 1982–83 such borrowings could not exceed $215 million. In subsequent fiscal years the borrowing could not exceed $15 million per month. Total borrowings could not exceed the amount of the bond issue ($500 million), and these borrowings would have to be repaid when the bonds are sold.

No more than $150 million of the funds raised from the bond sale could be used for the reconstruction or modernization of *existing* school facilities, and at least $350 million of the bond money could be used only for the construction of *new* facilities.

Fiscal Effect:

Under current law, the state can sell general obligation bonds at any rate of interest up to 11 percent.

Assuming that the full $500 million in bonds are sold during 1982–83 at the maximum interest rate of 11 percent and are paid off over a 20-year period, the interest cost on the bonds would be approximately $577 million. Therefore, the total cost to the General Fund of paying off both the principal ($500 million) and interest ($577 million) on these bonds would be about $1.1 billion.

The sale of the bonds authorized by this measure could also increase state and local costs to the extent it results in higher overall interest rates on bonds issued to finance other state and local programs.

The interest paid by the state on these bonds would be exempt from the state personal income tax. Therefore, to the extent that the bonds are purchased by California taxpayers in lieu of taxable bonds, the state would experience a loss of income tax revenue. It is not possible, however, to estimate what this revenue loss would be.

Text of Proposed Law

This law proposed by Assembly Bill 3006 (Statutes of 1982, Ch. 410) is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law adds sections to the Education Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Chapter 21.5 (commencing with Section 17680) is added to Part 10 of the Education Code, to read:

CHAPTER 21.5. STATE SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1982

17680. This act may be cited as the State School Building Lease-Purchase Bond Law of 1982.

17681. The State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code) is adopted for the purpose of the issuance, sale and repayment of, and otherwise providing with respect to, the bonds authorized to be issued by this chapter, and the provisions of that law are included in this chapter as though set out in full in this chapter. All references in this chapter to "herein" shall be deemed to refer both to this chapter and such law.

17682. As used in this chapter, and for the purposes of this chapter as used in the State General Obligation Bond Law, the following words shall have the following meanings:

(a) "Committee" means the State School Building Finance Committee created by Section 15909.

(b) "Board" means the State Allocation Board.

(c) "Fund" means the State School Building Lease-Purchase Fund.

17683. For the purpose of creating a fund to provide aid to school districts of the state in accordance with the provisions of the State School Building Lease-Purchase Law of 1976, and of all acts amendatory thereof and supplementary thereto, and to provide funds to repay any money advanced or loaned to the State School Building Lease-Purchase Fund under any act of the Legislature, together with interest provided for in that act, and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code the committee shall be and is hereby authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of five hundred million dollars ($500,000,000) in the manner provided herein, but not in excess thereof.

17684. All bonds herein authorized, which shall have been duly sold and delivered as herein provided, shall constitute valid and legally binding general obligations of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal and interest thereof.

There shall be collected annually in the same manner and at the same time as other state revenue is collected such a sum, in addition to the ordinary revenues of the state, as shall be required to pay the principal and interest on said bonds as herein provided, and it is hereby made the duty of all officers charged by law with any duty in regard to the collection of said revenue, to do and perform each and every act which shall be necessary to collect such additional sum.

On the several dates of maturity of said principal and interest in each fiscal year, there shall be transferred to the General Fund in the State Treasury, all of the money in the fund, not in excess of the principal of and interest on the said bonds then due and payable, except as herein provided for the prior redemption of said bonds, and, in the event such money so returned on said dates of maturity is less than the said principal and interest then due and payable, then the balance remaining unpaid shall be returned into the General Fund in the State Treasury out of the fund as soon thereafter as it shall become available.

17685. All money deposited in the fund under Section 17732 of this code and pursuant to the provisions of Part 2 (commencing with Section 16300) of Division 4 of Title 2 of the Government Code, shall be available only for transfer to the General Fund, as provided in Section 17684. When transferred to the General Fund such money shall be applied as a reimbursement to the General Fund on account of principal and interest due and payable or paid from the General Fund on the earliest issue of school building bonds for which the General Fund has not been fully reimbursed by such transfer of funds.

17686. There is hereby appropriated from the General Fund in the State Treasury for the purpose of this chapter, such an amount as will equal the following:

(a) Such sum annually as will be necessary to pay the principal of and the interest on the bonds issued and sold pursuant to the provisions of this chapter, as said principal and interest become due and payable.

(b) Such sum as is necessary to carry out the provisions of Section 17687 which sum is appropriated without regard to fiscal years.

17687. For the purposes of carrying out the provisions of this chapter the Director of Finance may by executive order authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. Any amounts withdrawn shall be deposited in the fund to be allocated by the board in accordance with this chapter. Any moneys made available under this section to the board shall be returned by the board to the General Fund from moneys received from the sale of bonds sold for the purpose of carrying out this chapter.

17688. Upon request of the board, supported by a statement of the apportionments made and to be made under Sections 17700 to 17746, inclusive, the committee shall determine whether or not it is necessary or desirable to issue any bonds authorized under this chapter in order to make such apportionments, and, if so, the amount of bonds then to be issued and sold. One hundred twenty-five million dollars ($125,000,000) shall be available for apportionment on December 1, 1982, and fifteen million dollars ($15,000,000) shall become available for apportionment on the fifth day of each month thereafter until a total of five hundred million dollars ($500,000,000) has become available for apportionment. Successive issues of bonds may be authorized and sold to make such apportionments progressively, and it shall not be necessary that all of the bonds herein authorized to be issued shall be sold at any one time.

17689. In computing the net interest cost under Section 16754 of the Government Code, interest shall be computed from the date of the bonds or the last preceding interest payment date, whichever is latest, to the respective maturity dates of the bonds then offered for sale at the coupon rate or rates specified in the bid, such computation to be made on a 360-day-year basis.

17690. The committee may authorize the State Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the State Treasurer.

17691. All proceeds from the sale of the bonds herein authorized deposited in the fund, as provided in Section 16757 of the Government Code, except those derived from premium and accrued interest, shall be available for the purpose herein provided, but shall not be available for transfer to the General Fund pursuant to Section 17686 to pay principal and interest on bonds.

17692. With respect to the proceeds of bonds authorized by this chapter, all the provisions of Sections 17700 to 17746, inclusive, shall apply.

17693. Out of the first money realized from the sale of bonds under this act, there shall be repaid any moneys advanced or loaned to the State School Building Lease-Purchase Fund under any act of the Legislature, together with interest provided for in that act.

1 State School Building Lease-Purchase Bond Law of 1982

Argument in Favor of Proposition 1

PROPOSITION 1 DESERVES YOUR "YES" VOTE. It will enable school districts to finance needed classrooms and to rehabilitate and modernize outdated buildings.

Many of California's school districts located in rapidly growing communities are experiencing explosive enrollment growth.

Other districts, particularly those located in our older urban communities, have severely overcrowded classrooms.

The problems of explosive growth and severe overcrowding have forced school districts to take drastic action, like:

- increase the class sizes of existing classrooms,
- shorten the school day to accommodate more pupils, and
- utilize nonclassroom facilities for instructional purposes.

Students cannot learn when they are "sitting on each other's laps."

With over one-third of California's school buildings more than 30 years old, many classrooms are presently ill equipped and in terrible physical shape. Simply stated, *MANY SCHOOLS ARE FALLING APART.* They need to be replaced, rehabilitated, or modernized in order to create a more efficient and attractive learning environment for our children.

PROPOSITION 1 will allow our school districts to address these pressing problems. It authorizes $500 million in school construction bonds, including $350 million for new facilities, and up to $150 million for the rehabilitation or modernization of older school facilities.

These government bonds will enable our children to be taught in school facilities that have finally been replaced or modernized.

California's school districts simply *DO NOT* have sufficient financial resources to construct needed classrooms. Our school systems have been the only local entity to operate under "revenue limits" set by the state. These revenue limits, in effect since 1972, have made it impossible for many schools to keep pace with inflation, much less build needed facilities.

Furthermore, current law, as enacted by Proposition 13, prohibits the electorate of our local school districts from voting to increase their taxes to finance school facilities. Accordingly, students, parents, school districts, and anyone who uses public school facilities must look to the state for more financial assistance.

In California our youth are our most important resource. The major beneficiaries of *PROPOSITION 1* will be our children. WE urge you to vote "YES" on Proposition 1.

ART TORRES
Member of the Assembly, 56th District
Chairman, Assembly Health Committee

CHRIS ADAMS
President, California State PTA

CORNELL C. MAIER
Chairman and Chief Executive Officer
Kaiser Aluminum and Chemical Corporation

Rebuttal to Argument in Favor of Proposition 1

No responsible person can dispute the serious crisis faced by our public schools as described by the proponents of Proposition 1. In many growing districts, classrooms are indeed woefully inadequate and overcrowded.

Our educational system needs and deserves full public support, but these expensive bonds are not the most responsible way of providing that support. The actual cost of this $500 million when paid back over 30 years would be $1.3 billion—$800 million in interest payments alone.

Proposition 1, along with other general obligation bond issues, will further endanger California's credit rating by increasing the total principal and interest payments required of the state.

However worthy the purpose, we should not use general obligation bond issues to avoid the normal annual budget review, nor should we attempt to circumvent the public's demand for expenditure restrictions and reductions by borrowing against our children's future.

Vote no on Proposition 1.

ALFRED E. ALQUIST
State Senator, 11th District
Chairman, Senate Committee on Finance

Argument Against Proposition 1

Proposition 1 provides for a $500 million bond issue to build, rebuild, and modernize public schools. The actual cost of this $500 million when paid back over 30 years will be $1.3 billion.

In an era of declining enrollments, should we pay $800 million in interest on a $500 million loan? In addition, there are potentially serious dangers to California's credit rating when too many bond issues are adopted and the payment of principal and interest increases accordingly. These bond issues and propositions will be paid for by our children and grandchildren.

School construction anticipated in this proposition has traditionally been funded through the state budget process. Restrictions and reductions in expenditures have been required by the voters on several different occasions, but this proposition could remove much of school construction from the budget process and thereby avoid the annual review and comparison with other public needs. It will, in effect, mortgage the future of the very children whose interests it purports to serve.

Our educational system—including necessary school buildings—deserves full public support, but expensive bonds are not the prudent way to proceed.

Vote no on Proposition 1.

ALFRED E. ALQUIST
State Senator, 11th District
Chairman, Senate Committee on Finance

Rebuttal to Argument Against Proposition 1

1. Opponents cite the long-term cost of bonds as a reason for voting against Proposition 1.

Bonds have been a means of getting necessary construction money today and repaying it with interest—*THE SAME AS IN BUYING A HOME.* To accept their logic would mean to reject the very system that allows many of us to buy our home, or businesses to construct new facilities.

2. Opponents state that schools have been funded through the state budget process.

Since Proposition 13 passed, *SCHOOLS HAVE BEEN FORBIDDEN* from seeking local bond initiatives to build, renovate, or repair school facilities. Today only statewide bond measures reviewed and approved by the Legislature can assure school districts with revenues to improve their facilities or build new buildings.

3. Opponents argue that school districts are experiencing an era of declining enrollments.

ELEMENTARY SCHOOL ENROLLMENT IS GROWING, especially in major population areas. State and county officials have agreed: most school districts will have more students than the previous year, causing explosive growth and overcrowded conditions, unless there is relief.

4. Opponents state that there is no review of school construction proposals by the Legislature.

BY LAW, districts must apply to the state in order to receive any assistance. Districts must document their need for classrooms and assure the state that classrooms proposed for construction or renovation *MEET STRINGENT STATE COSTS AND SIZE STANDARDS.* Before any action is taken, Members of the Legislature, along with other state officials, must agree that the proposal merits approval.

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