1988

School Facilities Bond Act Of 1988

75 School Facilities Bond Act of 1988

Official Title and Summary Prepared by the Attorney General

SCHOOL FACILITIES BOND ACT OF 1988. This act provides for a bond issue of eight hundred million dollars ($800,000,000) to provide capital outlay for construction or improvement of public schools.

Final Vote Cast by the Legislature on AB 48 (Proposition 75)

Assembly: Ayes	72	Senate: Ayes	33
Noes	1	Noes	0

Analysis by the Legislative Analyst

Background

The State School Building Lease-Purchase Program provides most of the money used by local public school districts to construct, reconstruct, or modernize school facilities. In order to receive money under this program, school districts must (1) meet specified eligibility requirements, and (2) contribute matching funds, based on the maximum amount of fees which they are allowed to collect from developers, as discussed below.

School districts also may raise funds for school facilities construction and reconstruction in three other ways. These are:

1. **The Mello-Roos Community Facilities Act of 1982.** Since January 1, 1983, school districts have been authorized to form special "community facilities" districts. Subject to the approval of two-thirds of the voters, these special districts can sell bonds to raise revenue to build new, or rehabilitate existing, school facilities. The bonds are paid off by a tax levied upon the real property located within the special district.

2. **Local General Obligation Bonds.** Proposition 46 on the June 1986 ballot gave school districts the ability to sell local school construction bonds, subject to a two-thirds voter approval. These bonds are paid off by increased property taxes.

3. **Developer Fees.** Since January 1, 1987, school districts have been authorized to impose developer fees. As of June 1, 1988, the maximum fee is $1.53 per square foot on new construction of residential buildings, and 25 cents per square foot on new construction of commercial or industrial buildings. These fees can be used only for construction or reconstruction of school facilities.

School Facilities Funding Needs. The total number of additional school facilities needed to meet current enrollment in the state is not known. As of January 27, 1988, however, applications submitted by school districts for state funding of new school construction projects totaled approximately $2.6 billion. In addition, applications for state funding of reconstruction or rehabilitation of school facilities totaled approximately $1 billion. Currently, there are no state funds available to fund these requests.

Proposal

This measure would authorize the state to sell $800 million in general obligation bonds to pay for (1) the construction, reconstruction, or modernization of elementary and secondary school facilities through the State School Building Lease-Purchase Program, (2) portable classrooms, and (3) air-conditioning equipment and insulation materials for year-round schools. General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. The state will use General Fund revenues to pay the principal and interest costs of the bonds. General Fund revenues come primarily from the state corporate and personal income taxes and the state sales tax.

The money raised from the bond sales would be used as follows:

- At least $590 million would be used for the construction of *new* school facilities.
- No more than $120 million could be used for the reconstruction or modernization of *existing* school facilities.
- No more than $50 million could be used to purchase portable classrooms.
- No more than $40 million could be used to buy and install air-conditioning equipment and insulation materials for eligible school districts with year-round school programs.

Fiscal Effect

This measure will have a fiscal effect whether it is approved or rejected by the voters.

A. **Fiscal Effect if *Approved* by the Voters.**

- **Direct Costs of Paying Off the Bonds.** For these types of bonds, the state typically would make principal and interest payments from the state's General Fund over a period of up to 20 years. Assuming all of the bonds are sold at an interest rate of 7.5 percent, the cost would be about $1.4 billion to pay off both the principal ($800 million) and interest (about $630 million). The average payment for principal and interest would be about $70 million per year.
- **Borrowing Costs for Other Bonds.** By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more under other bond programs. These costs cannot be estimated.
- **Impact on State Revenues.** The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California

taxpayers buy these bonds instead of making taxable investments, the state would collect less taxes. This loss of revenue cannot be estimated.

B. **Fiscal Effect if *Not Approved* by the Voters.**

Local Matching Contribution Would Be Eliminated. If this measure is not approved by the voters, existing law provides for termination of the requirement that matching contributions be made by school districts participating in the State School Building Lease-Purchase Program. The loss of local matching funds would result in either (1) fewer schools being constructed under this program, or (2) potential, unknown additional state cost to the program to pay the entire amount of any school facility it finances.

Text of Proposed Law

This law proposed by Assembly Bill 48 (Statutes of 1988, Ch. 25) 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 21.8 (commencing with Section 17697) is added to Part 10 of the Education Code, to read:

CHAPTER 21.8. SCHOOL FACILITIES BOND ACT OF 1988

17697. This chapter may be cited as the School Facilities Bond Act of 1988.

17697.10. 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 that law.

17697.15. 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.

17697.20. For the purpose of creating a fund to provide aid to school districts of the state in accordance with the provisions of the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (Chapter 22 (commencing with Section 17700)), the purposes authorized under Section 17697.75, and of all acts amenda- thereof and supplementary thereto, and to provide funds to repay any money nced 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 eight hundred million dollars ($800,000,000), exclusive of refunding bonds issued pursuant to Section 17697.85, in the manner provided herein, but not in excess thereof.

17697.25. 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 the bonds as herein provided, and all officers required by law to perform any duty in regard to the collection of state revenues shall collect that additional sum.

On the several dates of maturity of the 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 exclusive of funds transferred pursuant to subdivision (f) of Section 6217 of the Public Resources Code, not in excess of the principal of and interest on the bonds then due and payable, except as herein provided for the prior redemption of the bonds, and, in the event the money so returned on the dates of maturity is less than the principal and interest then due and payable, then the balance remaining unpaid shall be returned to the General Fund in the State Treasury out of the fund as soon thereafter as it shall become available.

17697.30. All money deposited in the fund under Section 17732 and pursuant to 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 17697.25. When transferred to the General Fund, the money shall be applied as a reimbursement of 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 the transfer of funds.

17697.35. There is hereby appropriated from the General Fund in the State Treasury for the purpose of this chapter, an amount that will equal the following:

(a) The 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 the principal and interest become due and payable.

(b) The sum as is necessary to carry out Section 17697.40, which sum is appropriated without regard to fiscal years.

17697.40. 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, plus the interest that the amounts would have earned in the Pooled Money Investment Account, from money received from the sale of bonds sold for the purpose of carrying out this chapter.

17697.45. Upon request of the board from time to time, supported by a statement of the apportionments made and to be made under Chapter 22 (commencing with Section 17700), the committee shall determine whether or not it is necessary or desirable to issue any bonds authorized under this chapter in order to fund the apportionments, and, if so, the amount of bonds to be issued and sold. The Treasurer shall sell the bonds so determined at such different times as necessary to service expenditures required by the apportionments.

17697.50. 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, the computation to be made on a 360-day-year basis.

17697.55. The committee may authorize the Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the Treasurer.

17697.60. 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 17697.25 to pay principal and interest on bonds.

17697.65. With respect to the proceeds of bonds authorized by this chapter, all provisions of Chapter 22 (commencing with Section 17700) shall apply.

17697.70. Out of the first money realized from the sale of bonds under this chapter, 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.

17697.75. (a) Of the proceeds from the sale of bonds pursuant to this chapter:

(1) Not more than one hundred twenty million dollars ($120,000,000) may be used for the reconstruction or modernization of facilities within the meaning of Chapter 22 (commencing with Section 17700).

(2) Not more than forty million dollars ($40,000,000) may be used for the purchase and installation of air-conditioning equipment and insulation materials pursuant to Section 42250.1.

(3) Not more than fifty million dollars ($50,000,000) may be used for the acquisition of portable classrooms for use in accordance with Chapter 25 (commencing with Section 17785).

(b) Notwithstanding subdivision (a), in the event the board determines at any time that the maximum amount made available pursuant to any of the paragraphs in that subdivision exceeds the amount necessary to fund the qualified recipients of the apportionment authorized under that paragraph, the board may expend any portion of that excess for the construction of new school facilities pursuant to Chapter 22 (commencing with Section 17700) or for any one or more of the purposes described in subdivision (a).

17697.80. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

17697.85. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 2 of Title 2 of the Government Code. Approval by the electors of the state for the issuance of these bonds shall include the approval of any bonds issued to refund any bonds originally issued or previously issued refunding bonds.

17697.90. The board may request the Pooled Money Investment Board to make a loan from the pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out the provisions of this chapter. The amount of the request shall not 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. The board shall execute any documents required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

75 School Facilities Bond Act of 1988

Argument in Favor of Proposition 75

More than 140,000 new students are entering California's public schools EACH YEAR. Housing these new students means building an average of 10 classrooms every day, seven days a week, 52 weeks a year!

California presently has overcrowded schools and a severe classroom shortage because of population growth. Yet, over the next two years, California must find additional classroom space for more than a QUARTER OF A MILLION NEW STUDENTS.

Our schools are improving: Test scores are up and students are taking more challenging courses than ever before. But this progress is threatened by an explosion in public school enrollments.

Your YES vote on Proposition 75 will provide classrooms for these students, prevent overcrowding, and help avoid double sessions.

In addition to funding new school construction, your YES vote on Proposition 75 will promote more efficient use of existing school buildings. It will help provide new schools in growing areas and badly needed repairs to older schools.

Funding for school construction in California is a partnership between local schools and the state. Using bonds to pay for schools is a safe and financially sound California tradition. Your YES vote on Proposition 75 WILL NOT RAISE TAXES. Your YES vote on Proposition 75 will fulfill the state's commitment to relieve the serious overcrowding facing our schools.

Please join us in voting YES on Proposition 75.

GEORGE DEUKMEJIAN
Governor

BILL HONIG
Superintendent of Public Instruction

JACK O'CONNELL
Member of the Assembly, 35th District

Rebuttal to Argument in Favor of Proposition 75

If I thought giving more money to education would solve the problem, I would be the first to give.

However, our schools are NOT improving. Test scores have gone up slightly only because Superintendent Honig changed the way we calculate test scores. Progress in education is not being threatened as much by a lack of classroom space as it is by a lack of confidence on the part of those people who are being asked to foot the bill.

For many years we had a declining enrollment in our public school systems. During that time we sold off many school sites, hired more bureaucrats and increased employee benefits far beyond what the private sector can expect.

As an example, one school district pays up to $4,582 a year per employee for a most generous health plan. It allows for school employees to have cosmetic surgery—from facelifts to tummy tucks—paid for by the taxpayers. That very school district recently announced a dropout rate of over 40%.

But, many districts currently expend around 90% of their budget on employee salaries and benefits.

Then when they have no money for new construction, they come crying to the voters for bond approval.

Well, I say NO DICE! Let the educational bureaucracy go back to the drawing board and get rid of cosmetic surgery, restrict the $100,000-plus salaries and benefit packages, and free vacation retreats. Then come back to the voters with a program that helps children.

Vote NO on Proposition 75.

TED COSTA
Assistant to Paul Gann
People's Advocate

Argument Against Proposition 75

Proposition 75 is part of a 6.2-billion-dollar bond package agreed to by our Legislature for the June and November ballots.

There are three facts voters should know before deciding:

- SOMEONE IS GOING TO HAVE TO PAY OFF THESE BONDS. WHEN YOU ADD INTEREST THEY COST 2 TO 3 TIMES AS MUCH.
- BONDS ARE AN END-RUN AROUND THE GANN SPENDING LIMIT PASSED BY VOTERS IN 1979 BY OVER 74%.
- CALIFORNIA TAXPAYERS ARE ALREADY OVERBURDENED WITH A MASSIVE PUBLIC DEBT.

Listed below are many of California's outstanding public debts:

100,000,000,000 dollars[1] (100 billion)	For post-retirement health care benefits to 1.4 million state and local employees.
11,000,000,000 dollars[2] (11 billion)	Unfunded liability of the teachers' retirement system.
600,000,000 dollars[2]	Unfunded liability of the judges' retirement system.
20,000,000 dollars[2]	Unfunded liability of the legislators' retirement system.
23,000,000,000 dollars[3] (23 billion)	Certificates of participation.
10,000,000,000 dollars[3] (10 billion)	Estimated local government debt.
20,000,000,000 dollars[4] (20 billion)	Other state bonds.
7,000,000,000 dollars[5] (7 billion)	Accrued vacation and sick leave time of governmental employees.

[1] According to Legislative Analyst's Office: "Funding PERS Health Care Costs" October 26, 1987.

[2] Official actuarial shortfalls. Employees have a contractual right to receive a pension.

[3] California Debt Advisory Commission, Vol. 6, No. 2, February 1987.

[4] Voter-approved.

[5] According to Legislative Analyst's Office, July 21, 1986: as the amount it would take to buy out accrued vacation and sick leave time of state and local employees.

The California State Budget is well over 40 billion dollars a year. That amount is ample to finance the many worthwhile spending needs of this state.

And now comes Proposition 75. It's just another straw on the backs of the taxpayers that burdens their future and ultimately means less money for future worthwhile projects.

The state's educational bureaucracy has received over one billion dollars in new funding over the last 4 years. In addition, lottery proceeds have generated over 2 billion dollars for our schools.

Taxpayers have a right to expect accountability from the state's educational bureaucracy. But, thus far, I've seen very little.

Even many school board members can't figure out exactly how 2 billion dollars in lottery proceeds is being spent.

Voters, please join with me and vote NO on Proposition 75. LET'S DEMAND OUR SCHOOLS LIVE WITHIN THEIR BUDGETS.

TED COSTA
Assistant to Paul Gann
People's Advocate

Rebuttal to Argument Against Proposition 75

- California is the largest and most prosperous state in the nation. If California were a separate country it would be the 7th richest nation on earth.
- California's economy can easily handle the additional bonds proposed by Proposition 75 to finance critically needed schools.
- California has the lowest level of bonded debt of any large industrial state in the nation.
- Proposition 75 uses the same financing mechanism that is preferred by private industry to fund their capital outlay projects.
- Proposition 75 conforms to the letter and the spirit of the Gann spending limit. The spending limit specifically allows the use of bonds to build schools.
- School districts are prohibited by law from using lottery funds for construction. Lottery funds are being used as the voters intended: to improve classroom instruction.
- Since 1983 California has raised educational standards and tightened financial controls. Our schools are improving.
- Using bonds to build schools for the next generation of Californians is a fair deal for taxpayers. Vote YES on Proposition 75.

GEORGE DEUKMEJIAN
Governor

BILL HONIG
Superintendent of Public Instruction

JACK O'CONNELL
Member of the Assembly, 35th District