

# **FINANCING SCHOOL FACILITIES IN CALIFORNIA**

By

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## **Executive Summary**

California's system of school facility finance is best described as a partnership between the state and local school districts. The state provides districts with financial support for new school construction and modernization projects through the School Facility Program (SFP), which was established in 1998. The SFP represented a major change in the way the state financed school facilities and was designed to simplify the overall structure of the state's schools facilities program and create a more transparent and equitable funding mechanism. Under the program, new school construction projects are funded on a 50/50 state and local matching basis while modernization projects are funded on a 60/40 basis. Although the program has gone through numerous changes since 1998, the basic structure of the SFP is still in place today. Since 1998, voters in California have approved three statewide bond issues to fund the School Facility Program and are scheduled to vote on a fourth this November. The three bond issues that have passed provided K-12 public schools with \$28.1 billion in state funding for school facility needs. If approved by voters in November of this year, Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006, will provide an additional \$7.3 billion in state funding. Local school districts finance their share of school construction and modernization project costs primarily with revenue raised through local general obligation bond elections. Since 1998, those local bond elections have provided school districts with an additional \$36 billion to finance school facility improvements.

This study provides a comprehensive review of California's system of school facility finance. In so doing, it attempts to answer five broad questions related to the way California finances its school facility needs: (1) How has the level of school facility funding changed over time and how does it compare to the level of funding in other states; (2) How is the level of school facility funding distributed across school districts; (3) What are the primary causes of inequities in school facility funding across districts; (4) Is facility funding reaching those districts with the greatest facility needs; and (5) How do charter schools obtain funding for school facilities and what are the special issues related to charter school facility finance? This report attempts to answer those questions by reviewing the history of school facility finance in California, documenting California's current system of school facility finance, and examining the level and distribution of school facility funding since 1998.

## **School Facility Funding has Increased Dramatically in Recent Years**

Since the passage of Proposition 1A in 1998, California's system of school facility finance has become more streamlined and the level of support for K-12 school facilities, both state and local, has increased dramatically. As noted above, since 1998 voters have approved \$28.1 billion in statewide general obligation bonds and an additional \$36 billion in local general obligation bonds to support school construction and modernization projects throughout the state. Prior to 1998, spending per pupil on school

facilities in California lagged behind the rest of the nation and even further behind states with similar enrollment growth trends. Since 1998, the level of spending has surpassed the national average and is now comparable to the level found in other states with similar enrollment growth rates.

### **There are Wide Disparities in School Facility Funding across Districts**

Revenue per pupil for school construction and modernization varies widely across districts. For example, in unified school districts the difference between the 75<sup>th</sup> and 25<sup>th</sup> percentiles of facility revenue per pupil (total revenue raised over the period 1998-2005 divided by student enrollment) is over \$10,000. Similar disparities in facility funding exist among elementary and high school districts. Part of the variation across districts in facility funding is due to differences in need, another part is due to differences in the ability to pay for school facility projects. In terms of need, districts with higher enrollment growth rates and those that have not invested heavily in school facilities in the recent past tend to have substantially higher revenue per pupil. In terms of ability to pay, districts with higher property wealth also tend to have substantially higher revenue per pupil. In particular, disparities in school facility funding across districts is systematically related to the assessed value of property within districts. Districts with higher assessed value per pupil are able to raise substantially more revenue through local general obligation bond issues and consequently, tend to have substantially higher total revenue per pupil. There also appears to be little relationship between facility revenue and the ethnic composition of districts. If anything, districts with higher concentrations of minority students tend to have higher facility revenue per pupil.

### **Critically Overcrowded Schools Serve a Disproportionate Number of Disadvantage and Minority Students -- They Also Have Higher Facility Funding**

In 2002 the state legislature created the Critically Overcrowded Schools (COS) program to help direct state aid towards districts with the greatest facility needs. The program was funded with \$4.1 billion of Proposition 47 and 55 bond revenue. To qualify for COS program funding, a school must have a student density that is double the density recommended by the California Department of Education. Critically overcrowded schools contain a disproportionate number of disadvantaged and minority students. For example, among schools classified as critically overcrowded the average percentage of students qualifying for free or reduced price lunch is 77%. Among all other schools that percentage is only 45%. Districts that contain critically overcrowded schools also tend to have higher facility revenue per pupil. For example, among the 42 districts that contain critically overcrowded schools, local bond revenue between 1998 and the present averaged \$5,722 per pupil and total revenue per pupil averaged \$11,323. In other districts local bond revenue averaged \$3,825 and total revenue averaged \$9,061. Thus, on average, total revenue per pupil is approximately 25% higher in districts that contain critically

overcrowded schools. Los Angeles Unified, which contains nearly 50% of all critically overcrowded schools, has experienced a particularly large increase in facility funding. In that district, total facility funding per pupil is more than twice the statewide average.

### **The Facility Dilemma Facing Charter Schools Is Improving but Challenges Still Remain**

Since charter schools were first introduced in California in 1993, they have faced significant facility challenges. During the 1990's there were few facility funding options available to charter schools and most charter schools, particularly non-conversion charter schools, faced significant barriers to obtaining adequate school facilities. The facility dilemma facing charter schools began to improve in 2000 when California voters passed Proposition 39. Prior to the passage of Proposition 39, districts were only required to make facilities available to charter schools if such facilities were not currently being used for instructional or administrative purposes or if such facilities had not been historically used for rental purposes. Under the charter school provisions contained in Proposition 39, it became the legal responsibility of school districts to make every reasonable effort to house charter school students in facilities that were essentially equivalent to those used to house other students within the district. Thus, Proposition 39 substantially increased the responsibility of school districts to provide charter schools with adequate school facilities. In recent years a number of grant and loan programs have also been established to help charter schools obtain adequate school facilities. For example, Propositions 47 and 55 contained \$400 million in funding for charter school facilities. Proposition 1D, if approved by voters in November of this year, would provide an additional \$500 million in facility funding for charter schools.

Although the facility dilemma facing charter schools has improved in recent years, challenges still remain. For example, according to a 2002 survey of charter schools conducted by the Rand Corporation, 62% of all charter schools surveyed stated they were struggling to finance their school facility needs. In addition, a 2005 survey of charter schools conducted by EdSource revealed that among the 135 charter schools that submitted Proposition 39 requests for facilities to their districts, 53 or 39% of schools reported they did not receive satisfactory facilities in response to their initial request or through continued negotiations.

## 1. Introduction

On November 7<sup>th</sup> of this year, Californians will vote on Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006. If approved by voters, the Act would provide K-12 public schools with \$7.3 billion in funding for new school construction and modernization projects. It would also represent the fourth such bond issue approved by voters since 1998. Collectively, those four bond issues will have provided \$35.4 billion in state funding for K-12 school facility needs. Local school districts have also been active in securing funding for school facilities: since 1998, local voters have approved over \$36 billion in local general obligation bond issues to finance school facility improvements.

California's willingness to support school construction and modernization efforts comes in the wake of several reports which concluded that underinvestment in school facilities had resulted in a school facilities crisis. For example, according to a 1995 report conducted by the U.S. General Accounting Office, the condition of California's school facilities ranked among the worst in the nation.<sup>1</sup> Furthermore, as recently as 2001, the Legislative Analyst's Office (LAO) reported that about one-third of all schoolchildren in California attended an overcrowded school or one in need of modernization.<sup>2</sup> To correct those problems, the LAO estimated that state and local governments would need to invest \$30 billion in the near term and significantly more in the future to meet California's ongoing school facility needs.

The purpose of this report is to provide a comprehensive review of California's system of school facility finance. Section 2 reviews the history of school facility finance in California. That chapter borrows liberally from Cohen (1999) who provides an excellent account of how California's system of school facility finance has evolved over time. Unfortunately, that account ends in 1999, just as the state was adopting a new system of school facility finance. Thus, section 2 builds on the work of Cohen by providing a review of California's system of school facility finance from the origins of California statehood to the present. Following that review, section 3 examines how school facility funding in California has changed over time and how it compares to the level of funding in other states. That section shows that school facility spending in California has fluctuated dramatically over time. It also shows that until recently, spending per pupil on school facilities in California lagged behind the rest of the nation. For example, between 1988 and 1996, California spent about 20% less on school facilities than the rest of the nation. The gap in school facility spending was even larger if one compares California to other states with similar enrollment growth trends, such as Texas and Florida. However, since 1998, spending per pupil on school facilities in California has increased dramatically. Facility spending in California now

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<sup>1</sup> U.S. General Accounting Office (2005).

<sup>2</sup> Legislative Analyst's Office (2001).

exceeds the national average and it is as high, if not higher, than the level of spending observed in states with similar enrollment growth.

After providing an historical overview of California's system of school facility finance, Section 4 turns to describing the current system. In particular, the section provides an overview of the School Facility Program which was established in 1998 with the enactment of AB 50 and the passage of Proposition 1A. The section documents the various steps school districts must follow to access state funds for new school construction and modernization projects. It also provides an overview of the Critically Overcrowded School Facilities (COS) program which was established in 2002 to address several concerns about the equitable distribution of Proposition 1A funds.

Sections 5, 6 and 7 turn to examining the level and distribution of school facility funding since the enactment of the School Facility Program in 1998. Section 5 shows that since 1998 state and local governments in California have raised over \$71 billion to fund new school construction and modernization projects throughout the state. State and local general obligation bond revenue accounts for 84% of that revenue with local general obligation bonds being the largest single source of revenue (approximately 53%). The section also shows that school facility funding varies widely across districts. The causes of these wide disparities in funding are the focus of section 6. That section shows that part of the variation in facility funding can be explained by differences in need. Districts with higher enrollment growth, and districts that have not invested heavily in school infrastructure in the recent past, tend to have significantly higher levels of facility funding. However, section 6 also finds that disparities arise from differences across districts in the ability to pay for new school construction and modernization projects. In particular, school facility funding varies systematically with district property wealth. High-wealth districts tend to have significantly higher local general obligation bond revenue per pupil and consequently, significantly higher total revenue per pupil.

Section 7 examines whether districts with the most critical facility needs receive higher levels of facility funding. To date, no comprehensive measure of school facility need is available in California. However, there are two objective measures of need that can be examined: schools that are classified by the California Department of Education as critically overcrowded and schools that operate on a multi-track year-round calendar. Section 7 begins by examining how the characteristics of critically overcrowded and multi-track schools differ from other schools. It then examines how facility funding in districts that contain critically overcrowded or multi-track schools compares to other districts. The section reveals that, compared to other schools, those that are classified as critically overcrowded or operate on a multi-track calendar, tend have significantly higher proportions of disadvantaged and minority students. It also shows that districts that contain critically overcrowded schools tend to receive significantly higher facility funding, particularly Los Angeles Unified.

Section 8 examines school facility funding for charter schools in California. It begins by discussing the unique facility challenges charter schools face and how those challenges have affected their ability to obtain adequate facilities. The section then documents how Proposition 39 impacted the ability of charter schools to obtain adequate school facilities. It also discusses the various sources of revenue that have recently become available to charter schools to finance their school facility needs. The report concludes by summarizing the main findings presented in Chapters 2 through 8 and linking those findings to research reports that have recommended various changes to the current system of school facility finance in California.

## **2. A History of School Facility Finance**

California's system of school facility finance has evolved slowly over time. Up until the mid-1900's, school construction and modernization projects were funded almost entirely with local revenue. State involvement in the system emerged with the creation of the State Allocation Board in 1947, which was directed by the state legislature to allocate state funds for school construction and renovation. Since that time, school facility finance has evolved from a locally-financed system to a system best described as a partnership between local school districts and the state. This section describes the history of school facility finance in California and documents the various programs that have been used to finance K-12 facilities.

From the early days of California statehood until 1933, state involvement in school facility finance was restricted to providing land grants to local communities for the purpose of establishing public schools. The State Constitution of 1849 mandated the state legislature to “encourage by all suitable means the promotion of intellectual, scientific, moral and agricultural improvement.”<sup>3</sup> The Constitution set aside large tracts of public land for the creation of public schools and mandated that every district in the state operate a public school for at least three months a year. The construction and renovation of these schools was financed entirely with local tax revenue.<sup>4</sup> In 1879, the California State Constitution was revised and school districts were granted the authority to issue bonds to finance school construction projects, subject to the approval of two-thirds of voters within the district. Local bonds were repaid with property tax revenue raised from a special tax assessment on all property located within a school district. School districts could issue additional bonds up to their debt capacity level which was set at 1.25 percent of assessed value for elementary and secondary districts and 2.5 percent for unified districts. From that

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<sup>3</sup> Constitution of the State of California, 1849. Text obtained from California State Archives: [http://www.ss.ca.gov/archives/level3\\_const1849txt.html](http://www.ss.ca.gov/archives/level3_const1849txt.html)

<sup>4</sup> During the early years of California statehood, state aid for education was limited to support for teacher salaries. Districts built schools when they could raise enough tax revenue or when civic-minded residents volunteered their time and resources to build a school. (Falk, 1968).

time forward, proceeds from local school bond elections became the primary source of local revenue for school construction projects.

The state first became involved in school construction and renovation activities in 1933, following the Long Beach earthquake. The earthquake, which struck just hours after classes ended on March 10<sup>th</sup> 1933, caused numerous school buildings in Long Beach and surrounding communities to collapse and provoked “public outcry over the vulnerability of school building to earthquake-related damage.”<sup>5</sup> In response, the state legislature passed the Field Act on April 10<sup>th</sup> 1933.<sup>6</sup> The Act mandated the Division of the State Architecture (DSA) to develop earthquake-resistant design and construction for all public schools in the State. It also required architects, engineers and inspectors to file reports verifying that schools were in compliance with the provisions of the Field Act.<sup>7</sup> Thus, state involvement in school construction and renovation began with state oversight of construction design and mandatory construction inspections. Although the Field Act has been updated overtime, the basic structure of the Act is still in place today.<sup>8</sup>

The post-World War II baby boom caused a surge in student enrollment in California which in turn led to a public school “building boom” starting in the late 1940’s.<sup>9</sup> From the late 1940’s to the early 1960’s, schools were built in record numbers.<sup>10</sup> In the late 1940’s the State Legislature recognized that school districts would need financial assistance to house California’s growing number of students. In response, the state legislature established the State Allocation Board in 1947 and charged the board with allocating state funds for the construction and renovation of schools.<sup>11</sup> In addition to its allocation role, the Board is also responsible for establishing policies and regulations for the programs it oversees.

In 1949, the Legislature passed the State School Building Aid Law which was designed to provide assistance to school districts for the construction and acquisition of new school facilities. To secure funding for the new program, California’s first statewide school bond initiative, Proposition 1, was placed on the November 1949 statewide ballot and approved by voters. The proposition authorized the sale of \$250 million of state bonds for the purpose of providing school districts with funds for new school construction and improvement. The State School Building Aid Law of 1949 was set up as a loan program. To enter the program, a district had to be bonded to capacity and obtain voter approval to

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<sup>5</sup> Heumann (2002), p. 9.

<sup>6</sup> The Field Act was named after California State assembly member Charles Field who spearheaded the legislation.

<sup>7</sup> State of California Seismic Safety Commission (December 2004), p. 6.

<sup>8</sup> For a complete description of the Field Act see the California education code section 17280-17317.

<sup>9</sup> From 1950 to 1960, student enrollment in California doubled from a total enrollment of 1,689,425 in 1950 to a total enrollment of 3,368,101 in 1960. (California Department of Education, Enrollment Reports for 1950 – 1979).

<sup>10</sup> According to EdSource, most of California’s schools were built during this period.

<sup>11</sup> The State Allocation Board consists of ten members: the Director of the Department of Finance, the Director of the Department of General Services, the Superintendent of Public School Construction, one person designated by the Governor, three State Senator, and three State Assembly Members.



accept a state loan. Districts were then required to maintain a property tax rate equivalent to the rate necessary to finance general obligation bonds at the district's debt capacity level. After 30 years, if the state loan was not fully repaid, any outstanding balance was forgiven.<sup>12</sup>

For the next two decades, California's system of school facility finance remained relatively unchanged: school districts provided most of the funds for new school construction and the state provided limited assistance via loans for the State School Building Aid program.<sup>13</sup> Between 1952 and 1966, California voters approved 7 statewide school bond initiatives, which provided \$1.54 billion for the State School Building Aid program. Throughout this period, state aid was limited to loans that could only be used for the purpose of new school construction. School districts wishing to renovate or modernize existing school facilities had to finance those renovations with local revenue.

By the late 1960's, many of California's schools were over 20 years old and in need of renovation. Recognizing this need, the state legislature in 1966 declared that it was in the "interest of the state and the people thereof to provide assistance to school districts in rehabilitating or replacing structurally unsafe school facilities."<sup>14</sup> In 1968, state assistance for the modernization of urban schools built prior to 1943 was added to the education code.<sup>15</sup> Further changes to California's system of school facility finance began to emerge in the early 1970's. In response to damage caused by the 1971 San Fernando earthquake, the legislature designed a new program to provide funding for earthquake-damaged schools and schools that were not in compliance with the Field Act. The new program was funded with revenue from two statewide school bond initiatives: the School Building and Earthquake Reconstruction and Replacement Bond Law of 1972, which provided \$350 million for the construction and renovation of schools, and the State School Building Aid and Earthquake Reconstruction and Replacement Bond Act of 1974, which provided an additional \$150 million.<sup>16</sup> While most state aid to school districts remained in the form of loans, the new legislation included provisions to forgive loans for school districts that had reached their bonding capacity and also provided grants to school districts that would otherwise not be eligible for funding. Thus, by the early 1970's, state involvement in school facility finance had expanded to include aid for school renovation and modernization and the role of the state had begun to change from one of a primary lender to one of a grantor.

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<sup>12</sup> California Education Code, State School Building Aid Law, 1949, Section 15738.

<sup>13</sup> The State School Building Aid Law of 1949 was updated when the State School Building Aid Law of 1952 was passed by the state legislature. While more detailed, the new program retained the same basic structure of its predecessor.

<sup>14</sup> California Education Code, School Housing Aid for Rehabilitation and Replacement of Structurally Inadequate School Facilities, Section 16312.

<sup>15</sup> California Education Code, Urban School Construction Aid Law of 1968, Sections 16700-16734.

<sup>16</sup> In November 1972, California voters also passed Proposition 9, the Bond Vote for Structurally Unsafe School Buildings. The proposition allows districts to issue general obligation bonds, subject to the approval of a simple majority of voters (rather than a super-majority) for the purpose of repairing or replacing structurally-unsafe school buildings.

In 1976, the state legislature enacted the Leroy Greene State School Building Lease-Purchase Law. The law established a fund to provide loans to school districts for both new construction and modernization. Eligibility for new construction funding was based on housing capacity. To qualify, a district had to demonstrate that existing seating capacity was insufficient to house either current student enrollments or anticipated student enrollments based on a 5-year projection of enrollment growth. To qualify for modernization funding, a school building had to be at least 30 years old, or in the case of a portable classroom, at least 20 years old. The new program also established a system of “priority points” for the allocation of state funds. In the original 1976 legislation these priority points depended on factors such as the number of unhoused students, projected enrollment growth rates and the degree of renovations necessary.<sup>17</sup> Although the Lease-Purchase Program was signed into law in 1976, funding for the new program was never approved by voters: in June of 1976 voters rejected a \$200 million state bond initiative that was designed to fund the new program. At first, the lack of funding appeared to be of little consequence. Between 1970 and 1982, student enrollment in California’s public schools was declining and hence there was little demand for state funds. Things began to change, however, following the passage of Proposition 13 in June of 1978.

The passage of Proposition 13 shifted the primary responsibility for financing new school construction and modernization from local school districts to the state. By prohibiting property tax overrides to fund local general obligation bonds, Proposition 13 eliminated the primary source of local revenue for new school construction and modernization. Consequently, in the aftermath of Proposition 13, school districts were forced to turn to the state to meet their school facility needs. The state legislature responded to Proposition 13 by turning the Lease-Purchase Program into what essentially amounted to a grant program. School districts that chose to participate entered into a 40-year lease-purchase agreement with the state, with payments of \$1 per project per year. Although school districts were expected to contribute up to 10% of a project’s cost, many school districts could no longer raise the required match and thus asked the State to fund their entire projects.<sup>18</sup> The increased demand for state funding, coupled with the fact that in June of 1978, voters once again rejected a statewide bond initiative designed to fund the Lease-Purchase Program, led to a large shortfall in funding for new school construction and modernization.

The state legislature responded to the need for school facility funding in a number of ways. First, in 1982 and then again 1984, it placed school bond initiatives on the statewide ballot. Voters approved both initiatives, which collectively provided the Lease-Purchase Program with \$950 million. Second, in 1982, the state legislature passed legislation allowing school districts, for a ten year period, to pay just 1

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<sup>17</sup> Cohen (1999), p. 12.

<sup>18</sup> Cohen (1999), p. 13.

percent of the costs of state-funded projects rather than the 10 percent required in the original 1976 Lease-Purchase Program legislation. Third, in 1982, the state also implemented the Mello-Roos Community Facilities District Act. The Act allows school districts to create Community Facility Districts (CFD's) within the boundaries of the district to fund new school construction. The owners of land within the boundaries of a CFD are assessed a special tax to finance new construction projects. The tax must be approved by two-thirds of the voters within the proposed CFD or, when the district has fewer than 12 property owners, by majority vote of the owners.<sup>19</sup> Fourth, to reduce the costs associated with school construction projects, in 1983 the state legislature passed legislation (Chapter 498, Statutes of 1983) giving districts a financial incentive to place students into a multi-track year-round education (MTYRE) program. Districts that participated in the program were eligible for a grant of up to 10 percent of the cost that would have been necessary to build a new facility to house the students.<sup>20</sup>

By the mid-1980's however, it became apparent that these measures were not sufficient to meet the growing facility needs of school districts. Student enrollment in California had begun to grow again in the 1980's, creating further pressure on the state for increased facility funding. In addition, both the federal and California state governments passed asbestos removal legislation in 1986, which led to an increase in the number of applications for modernization and rehabilitation funding. By June of 1986, the State Allocation Board had received applications for funding that totaled nearly \$2.3 billion.<sup>21</sup> To meet the ever-growing demands on the Lease-Purchase Program, the state legislature placed seven statewide bond initiatives on the ballot between 1986 and 1992. All seven of the bond initiatives passed, providing the state with an additional \$6.8 billion for school facility projects. Voters and the state legislature also passed a number of new programs designed to reinstate the authority of local school districts to raise revenue for new school construction and modernization. In June of 1986, voters passed Proposition 46, which reestablished the authority of local school districts to issue general obligation bonds, subject to the approval of two-thirds of the voters within a district. Also in 1986, the state legislature approved AB 2926 which authorized school districts to directly impose developer fees to finance new school construction. Developer fees could only be imposed on new industrial, commercial, or residential development. Furthermore, the maximum fee a district could impose was set at \$1.50 per square foot for residential development and \$0.25 per square foot for commercial and industrial development.<sup>22</sup>

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<sup>19</sup> Rivasplata (1997), p. 42.

<sup>20</sup> Cohen (1999), p. 14.

<sup>21</sup> Cohen (1999), p. 15.

<sup>22</sup> While fees were capped in theory, some school districts managed to find ways around the caps. In particular, several school districts argued that the caps only applied to the school district rate. As a result, they petitioned their city and/or county governments to impose additional fees, leading to a total fee that exceeded the cap of \$1.50 per square foot for residential property and \$0.25 per square foot for commercial property. The cases led to three

As the 1990's unfolded, demands on the Lease-Purchase Program continued to mount. Attempts to conserve limited resources led the state legislature and the State Allocation Board to implement numerous changes to the program. In 1990, a new priority system was implemented, based on when an application was received and a complex set of additional priorities. One year later, the priority system was changed to include six priorities of funding. A district was given priority 1 funding status if the district covered at least 50% of the project costs with local funds and had a substantial enrollment in year-round schooling programs. Priority 2 status was granted if the district requested 100% state funding of the project and had a substantial enrollment in year-round schooling programs. Districts received lower priority if they did not have substantial enrollment growth, were not requesting funds for a year-round schooling project, or were requesting 100% funding from the state. Due to the limited funding available from the state, the vast majority of projects that received funding were either priority 1 or priority 2 projects. In 1996 the priority system was changed yet again to take into consideration new class-size reduction legislation and finally, in 1997, the priority system was replaced altogether by a first-come first-served system.<sup>23</sup> Despite these numerous changes to the Lease-Purchase Program and the passage of another \$3 billion statewide bond initiative in March 1996, the backlog of projects faced by the State Allocation Board remained at approximately \$6 billion at the end of 1996.

In November 1998, the legislature passed SB 50, The Leroy Greene School Facilities Act of 1998. The legislation replaced the Lease-Purchase Program of 1976 with a new program called the School Facility Program (SFP). The new state program was funded with bond revenue from Proposition 1A, a \$9.2 billion state bond initiative approved by voters in November of 1998. The initiative provided \$6.8 billion for K-12 school construction projects over a four-year period. Specifically, the bond included \$2.9 billion for new school construction, \$2.1 billion for modernization, \$1 billion for districts facing financial hardship, and \$700 million for class-size reduction projects. The School Facilities Program represents a major change in the way the state finances school facilities. Under the new program, state funding for new school construction and modernization is provided in the form of per-pupil grants with supplemental grants available for site development, site acquisition and other site-specific costs.<sup>24</sup> New school construction projects are funded on a 50/50 state and local matching basis while modernization projects are funded on a 60/40 state and local matching basis.<sup>25</sup> The SFP also implemented numerous reforms to the old Lease-Purchase program that were designed to stream-line the application process, simplify the overall structure of the state school facilities program, and create a more transparent and

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separate law suits in which the courts ultimately upheld the practice. The three decisions collectively became known as the Mira-Hart-Murietta decisions.

<sup>23</sup> Cohen (1999), p. 17.

<sup>24</sup> School Facility Program Handbook (February 2006), p. 1.

<sup>25</sup> Under the original 1998 legislation, modernization projects were funded on an 80/20 state and local matching basis. The matching rate was reduced to a 60/40 state and local basis following the passage of AB 16 in 2002.

equitable funding mechanism. In his excellent review of the history of school facility finance in California and the role of the State Allocation Board, Joel Cohen notes:

Historically, the process by which schools applied for and received construction funds was cumbersome and complex. Furthermore, the research suggests that school districts that were sophisticated and knowledgeable about the complicated school facilities construction process were the most successful in securing funding – often at the expense of less sophisticated and uninformed school districts. Proposition 1A corrects much of this dynamic by simplifying the application and administrative processes, thereby creating a more level playing field for all school districts.<sup>26</sup>

The basic structure of the School Facilities Program remains in place to this day and is discussed in detail in section 4.

While the Leroy Greene School Facilities Act of 1998 (henceforth SB 50) was designed to streamline and simplify the process for allocating state funds, it wasn't long before the new program was called into question. In March of 2000, the *Godinez v. Davis* lawsuit was filed in the Los Angeles Superior Court on behalf of a group of parents and students from the Los Angeles Unified School District. The suit contended that the method by which Proposition 1A funds were allocated discriminated against large urban school districts. Among other things, the lawsuit called into question the priority point system the State Allocation Board (SAB) used to allocate Proposition 1A funding. The original SB 50 legislation required the SAB develop a priority point system, based upon the percentage of currently and projected unhoused pupils, to allocate state funds once those funds became insufficient to fund the applications submitted by school districts.<sup>27</sup> In 1999, AB 562 was enacted to make the timing of implementing priority points more specific. The new legislation required that the system of priority points must be implemented once either of the following two conditions were met: (1) funds necessary to fund approved applications exceed funds available, or 2) only \$300 million remains in new construction funding.<sup>28</sup> In the case of *Godinez v. Davis*, the plaintiffs argued (among other things) that in large urban districts, it took longer to file a formal application for reasons beyond the direct control of the district and since the SAB allocates funds only to those districts that have filed a formal application for funding, the funding process put large urban districts at a disadvantage. In essence the plaintiffs argued that, even though large urban districts were “high need” districts, and thus should receive a high priority for state funding, the state funding process placed such districts at a disadvantage since it took them longer to file applications. In August of 2000, Judge Yaffe, the presiding judge in the *Godinez* case, ruled that the State

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<sup>26</sup> Cohen (1999), p. 1.

<sup>27</sup> Up until the point where state funds became insufficient, Proposition 1A funds were allocated on a first-come first-served basis.

<sup>28</sup> Coalition for Adequate School Housing, News Archives, July 11, 2001.

Allocation Board was not apportioning funding in accordance with AB 562 and ordered the SAB to develop rules that would provide greater funding opportunities for high need districts such as LA Unified.<sup>29</sup>

In response to the court's ruling, the SAB adopted a revised priority system in December of 2000. The new system set aside \$450 million of remaining Proposition 1A funding for high-priority urban districts until August of 2002. It also required that the remaining \$1 billion in new construction funding be released on a quarterly rather than monthly basis at the rate of approximately \$125 million per quarter and that those funds be allocated to projects based upon their priority point order. As a result of these changes, the *Godinez* plaintiffs agreed not to pursue any further litigation.

Around the same time *Godinez v. Davis* was first making its way through the courts, plaintiffs in *Williams v. State of California* filed a class-action lawsuit in the San Francisco Superior Court. Among other things, the plaintiffs argued that the state failed to provide students with equal access to safe and decent school facilities, particularly low-income students and students of color. Specifically, the plaintiffs argued that disadvantaged and minority students were more likely to be housed in facilities with “extremely hot or cold classrooms, unkempt or inadequate bathroom facilities, and unrepaired and hazardous facilities such as broken windows, vermin infestations, leaky roofs, or mold.”<sup>30</sup> In August of 2004, the state agreed to a settlement. As part of that settlement, the state agreed to dedicate \$800 million in funding for emergency repairs for low-performing schools.<sup>31</sup>

To address some of the problems encountered after the first round of funding for the new School Facility Program, the state legislature enacted AB 16 in April of 2002. AB 16 added to the SFP a new program called the Critically Overcrowded Schools program. The program allowed districts with schools that were classified by the California Department of Education as critically overcrowded to reserve state funding for new school construction for a period of up to four years. Thus, the Critically Overcrowded Schools program allowed districts such as LA Unified, who argued it took them longer to file applications for funding, to reserve state funds prior to submitting an application for funding.<sup>32</sup> AB 16 also put before voters two new statewide school bond issues: Proposition 47 and Proposition 55. The two bond issues, which were respectively approved by voters in November of 2002 and March of 2004, provided an additional \$21.4 billion in state funding for school facility projects. The bonds include \$4.8 billion to

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<sup>29</sup> Building Industry Association of Southern California, February, 2001.

<sup>30</sup> Pastor and Reed (2005), p. 22.

<sup>31</sup> The settlement requires the state to allocate \$800 million to a new School Facilities Emergency Repair Account which will reimburse districts for emergency repairs. Only schools ranked in the bottom three deciles of the 2003 Academic Performance Index (API) are eligible for emergency repair funding.

<sup>32</sup> Other significant elements of AB 16 were the creation of a Joint-Use Program and the elimination of priority points for new school construction and modernization projects. In essence, the need for a priority point system was eliminated by the creation of the Critically Overcrowded Schools program.

fund previously-approved projects that did not receive Proposition 1A funding, \$4.1 billion for the Critically Overcrowded Schools program, \$3.7 billion for school modernization projects and \$8.8 billion for new school construction.<sup>33</sup>

In addition to passing two of California's largest school bond initiatives, in November of 2000 California voters also passed Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. The Act allowed a district to issue local general obligation bonds subject to the approval of 55 percent of voters (rather than two-thirds voters), conditional on several accountability requirements. Specifically, the Act required school districts to set up a citizen's oversight committee to ensure bond proceeds were allocated properly. It also required school districts provide a list of specific projects to be funded with any bond revenue and to conduct annual performance and financial audits. Districts seeking to avoid these requirements may still ask their electorate to approve a bond issue but any such bonds must be approved by a two-thirds majority rather than a 55 percent majority.

Proposition 39 also had ramifications for School Facility Improvement Districts (SFID's) which consist of a portion of the territory within a school district. Similar to school districts, SFID's can issue general obligation bonds for new school construction subject to the approval of voters within the SFID. The state legislature authorized the establishment of SFID's in 1998 to address a problem faced by districts that currently had a Mello-Roos Community Facility District (CFD) within their boundaries.<sup>34</sup> Since voters within a CFD were already being taxed to support school facilities within their CFD, the passage of a district-wide general obligation bond issue would lead to the double taxation of residents within the CFD.<sup>35</sup> Up until 2002, the issuance of general obligation bonds by a SFID required the approval of two-thirds of voters within the SFID. Senate Bill 1129, which became effective on January 1<sup>st</sup> of 2002, permits SFID's to hold a Proposition 39 school bond election and therefore issue bonds subject to the approval of 55 percent of voters.

Looking towards the future, the Office of Public School Construction estimates that even after all Proposition 47 and 55 funds are depleted by 2007, the state will need an additional \$6.8 billion to fund its portion of new school construction and modernization projects.<sup>36</sup> As a result, the state legislature enacted AB 127, the Kindergarten-University Public Education Facilities Bond Act of 2006, in May of 2006. The legislation provides for a new statewide bond issue of \$10.4 billion dollars to fund K-12 and higher education facility needs. If approved by voters in November of 2006, the legislation would provide K-12

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<sup>33</sup> de Alth and Rueben (2005).

<sup>34</sup> SFID's were first established by the state legislature in 1994 but no SFID's were formed in response to the legislation. Subsequent legislation in 1996 and 1997 broadened the potential use of SFID's and the first SFID was established in 1998. As of June of 2006, 25 SFID elections had been held of which 13 were successful.

<sup>35</sup> SFID's can only be established in districts that currently have a CDF within in their boundaries and they may not include the territory of the CFD.

<sup>36</sup> Notes from the Assembly Education Committee, Education Infrastructure Hearing #1, January 25, 2006.

public schools with \$1.9 billion in funding for new school construction project, \$3.3 billion for modernization projects, \$500 million for charter school facilities, \$1 billion for severely overcrowded schools, \$500 million for career technical facilities, and \$129 million for other projects.

### **3. Changes in School Facility Funding over Time and Comparisons to other States**

As the previous section makes clear, California's system of school facility finance has changed frequently over time. This section documents how the numerous changes to the system, and the cyclical nature of statewide school bond initiatives, have affected the level of school facility funding over time. It also documents how spending on school infrastructure in California compares to the rest of the nation and individual states with similar enrollment growth trends.

Figure 1 documents the historical trend in per-pupil school facility spending in California from 1960 to the present.<sup>37</sup> Spending levels are adjusted for inflation with 2005 as the base year. As the figure makes clear, facility spending has fluctuated quite dramatically over time. From 1960 to 1982, spending per pupil on school facilities declined rather continuously, with brief upswings that correspond to the passage of statewide school bond initiatives. Part of this decline is directly related to changing demographics and a natural pattern of infrastructure finance; i.e., periods of heavy investment in infrastructure reduce the need for further investment for a period of time. For example, the decline in school facility spending that occurred during the 1960's was a natural response to the large investment in school facilities that was made during the "building boom" of the late 1940's and 1950's. Similarly, the decline in spending that occurred during the 1970's was partly due to the decline in student enrollment that occurred over that time period.

Figure 1 also illustrates that California experienced a dramatic decline in facility spending between 1978 and 1984, the period during which Proposition 13 prohibited local school districts from issuing local general obligation bonds. Since 1984, facility spending has risen rather continuously, with brief declines occurring when little or no statewide bond revenue was made available. The rise in spending that occurred during the 1980's was primarily driven by three factors: the rise in student enrollments that began in the early 1980's, the passage of Proposition 46, which reestablished the authority of local school districts to issue general obligation bonds, and the passage of AB 2926 which authorized school districts to levy developer fees. The dramatic rise in facility spending that has occurred since 1996 is primarily due to the passage of large statewide bond initiatives in 1996, 1998, 2002 and

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<sup>37</sup> Data on school facility spending over time was obtained from annual school finance records prepared by the California Department of Education. Specifically, data from 1960 to 1986 comes from annual reports on the "Financial Transactions Concerning School Districts in California," while the data from 1987 to 2005 comes from J200 and SACS accounting records prepared by the California Department of Education.



2004, and the passage of Proposition 39 in 2000 which lowered the vote requirement on local general obligation bonds to 55%.

The impact of recent increases in school facility spending is further illustrated in Tables 1 and 2, which document the history of K-12 state and local general obligation bond initiatives in California. Table 1 summarizes the history of statewide school bond initiatives. For each time period listed in column 1, columns 2 through 6 give the number of bond issues proposed, the number of bond issues that passed, the total amount proposed, and the total amount that was ultimately passed measured in both current and constant 2005 dollars.<sup>38</sup> As the table reveals, 26 statewide bond elections have been held in California since 1949 and of those, all but three have been approved by voters. Measured in constant 2005 dollars, these bond issues have collectively made available over \$56 billion for school construction and modernization. Of this \$56 billion, \$33.52 billion, or nearly 60%, was approved by voters since 1996 and \$23.3 billion, or approximately 41%, was approved by voters since 2001 and the passage of Propositions 47 and 55.

Table 2 provides the same information as Table 1 for local school bond initiatives. Since 1986, California school districts have held a total of 1,215 local general obligation bond initiatives. Of those, 760, or approximately 63%, have been approved by voters. Measured in constant 2005 dollars, these local initiatives have raised over \$51 billion for school construction and modernization projects. Table 2 also makes apparent the impact of Proposition 39 on the passage rate of local school bond initiatives and the amount raised through these initiatives. Between 1996 and 2000, the period just prior to the passage of Proposition 39, approximately 63% of local school bond initiatives were approved by voters. In contrast, between 2001 and 2005, voters approved 80% of the bond issues they were asked to support. The amount raised locally through bond initiatives has also increased dramatically since the passage of Proposition 39. In the five year period just prior to the passage of Proposition 39, voters approved \$16.4 billion in local general obligation bonds (measured in constant 2005 dollars) in 282 elections. In the five year period following the passage of the proposition, voters have approved over \$28 billion in local G.O. bonds in 285 elections. In fact, approximately 55% of all local bond revenue approved by voters since 1986 has been approved since the passage of Proposition 39.

Although school facility spending has risen dramatically since 1996, it remained below the national average until 2000. Figure 2 compares school facility spending per pupil in California with spending per pupil in the rest of the U.S between 1988 and 2004.<sup>39</sup> Spending levels are adjusted for

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<sup>38</sup> Information on statewide school bond initiatives was obtained from the Los Angeles County Law Library's, "Guide to California Ballot Propositions." <http://lalaw.lib.ca.us/ballot.html>.

<sup>39</sup> Data on K-12 School facility spending in the U.S. comes from the U.S. Department of Commerce, Bureau of the Census, Annual Survey of Local Government Finances. Annual facility spending is measured as the sum of total

inflation, with 2005 as the base year. On average, between 1988 and 1996 California spent about 20% less on school facilities per pupil than the rest of the nation. With the passage of two large statewide bond initiatives in 1996 and 1998, spending per pupil in California began to rise relative to the rest of the nation. Since 2000, and the passage of Propositions 39, 47, and 55, school facility spending in California has risen above the national average.

Table 3 compares school facility spending in California with spending in other states between 1988 and 2004. For each time period listed in column 1, columns 2 through 8 respectively give the average level of facility spending in the U.S. except California, in California, and in five other states with enrollment growth similar to California. All spending levels listed in Table 3 are adjusted for inflation and measured in constant 2005 dollars. As the table reveals, prior to 2001, California consistently spent less per pupil on K-12 school facilities than other states with similar enrollment growth trends.<sup>40</sup> For example, between 1988 and 1992 California spent about \$100 less per pupil on school facilities than Texas. Similarly, between 1997 and 2000 it spent about \$260 less per pupil than Texas. Between 2001 and 2004, however, spending per pupil on school facilities in California had reached or exceeded the spending levels observed in other states with similar enrollment growth. Nevertheless, despite the recent up-tick in spending, spending per pupil on school facilities over the entire time period still lags behind the level observed in other states. For example, between 1988 and 2004, spending per pupil in California averaged \$818 while it averaged \$1,172 in Florida and \$963 in Texas.

In summary, between 1960 and 1982, spending per pupil on school facilities in California was consistently falling. Although spending per pupil has risen ever since, throughout the 1980's and 1990's it remained below the national average, and even farther below the level found in states with similar enrollment growth trends. Since 1998, spending per pupil in California has increased dramatically so that spending on school facilities in California is now higher than the national average and it is as high, if not slightly higher, than the spending levels observed in states with similar enrollment growth trends. With that in mind, the next section turns to a discussion of California's current system of school facility finance.

#### **4. The Current System of School Facility Finance**

California's current system of school facility finance is best described as a partnership between the state and local school districts. The state provides funding for school facility projects via the School Facility Program (SFP), which is subdivided into five major programs: the New Construction Program,

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state and local capital expenditures. Prior to 1988, data on capital outlays by state and local governments for K-12 education were not reported in a consistent manner. As a result, the analysis begins in 1988.

<sup>40</sup> Carroll, et. al. (2005) show that between 1990 and 2000 California also spent less per pupil on school facilities than the four other most populous states, namely, Texas, New York, Florida, and Illinois.

the Modernization Program, the Critically Overcrowded Schools (COS) program, the Joint-Use Projects program, and the Charter School Facilities program. With the exception of the Modernization Program, all these state programs are funded on a 50/50 state and local matching basis. The Modernization Program is funded on a 60/40 state and local matching basis. Local school districts finance their share of school facility projects with funding obtained primarily from two sources: local general obligation bonds and developer fees. Thus, the current system is designed to be a collaboration between the state and local school districts, with each entity providing a portion of the costs associated with any given new construction or modernization project. This section describes the major programs the state uses to fund school facility projects and delineates the various steps school districts must complete to obtain state funding.<sup>41</sup>

#### *Overview of the SFP Program*

In order to obtain funding for new school construction and modernization projects, school districts must interact with, and obtain approval from, a number of state agencies. These include the State Allocation Board (SAB), the Office of Public School Construction (OPSC), the Division of the State Architect (DSA) of the Department of General Services, the School Facilities Planning Division (SFPD) of the California Department of Education, the Department of Toxic Substance Control (DTSA), and the Department of Industrial Relations (DIR).

As mentioned previously, the SAB is responsible for approving all state apportionments for new school construction and modernization projects. The board meets monthly to review applications for funding, act on appeals, and implement policies associated with the School Facility Program. The OPSC is the administrative arm of the SAB. Its primary responsibilities include: allocating state funds for projects approved by the SAB, reviewing eligibility and funding applications, and providing information and assistance to school districts. The DSA has been involved in the process of school construction since the Field Act was first passed in 1933. The primary responsibility of the agency is to review and approve construction plans and to ensure those plans are in compliance with the Field Act. DSA approval is required for all new school construction and modernization projects. The primary role of the School Facilities Planning Division (SFPD) is to approve school district site and construction plans. The agency reviews the “educational adequacy” of proposed projects to ensure they meet the needs of students and teachers. The agency also works with the Department of Toxic Substance Control to review any potential environmental hazards associated with a project. The final agency involved in the process is the Department of Industrial Relations (DIR). The primary responsibility of this agency is to ensure that

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<sup>41</sup> This section focuses on the New Construction Program, the Modernization Program, the Critically Overcrowded Schools program and the Joint-Use Projects program. Section 8 contains a detailed description of the Charter School Facilities program.

school districts are in compliance with labor laws relating to contractors and employers. Before any funding from the SFP is released to a school district, the district must obtain certification that its Labor Compliance Program has been approved by the DIR.

The School Facility Program provides funding for two major types of school construction projects: new school construction and modernization. The process of obtaining state funding is divided into two steps: an application for eligibility and an application for funding. Applications for eligibility are reviewed by the OPSC and then presented to the SAB at one of their monthly meetings for approval. Upon receiving approval from the SAB, a district may request funding by submitting a funding application to the OPSC. The funding application must include supporting documentation that shows that the district's plans for construction have been approved by the DSA and the SFPD. The completed funding application is reviewed by the OPSC and then submitted to the SAB for a funding apportionment. Funds apportioned by the SAB are released once the district has provided evidence that it has secured funding for required local matching funds (50% of new school construction projects costs and 40% of modernization project costs), and evidence that it has entered into a binding contract for at least 50% of the proposed construction project. Figure 3 illustrates the steps districts must follow to obtain funding for either new school construction or modernization projects.<sup>42</sup>

As noted in the previous section, the SFP was designed to stream-line the application process and simplify the overall structure of the state's school facilities program. According to the Office of Public School Construction (OPSC), most funding applications can now be reviewed and receive final approval from the State Allocation Board within 60 to 90 days. Relative to the old Lease-Purchase Program, the SFP also involves less project oversight by the state and allows districts considerable independence in determining the scope of any new school construction or modernization project. However, this greater independence comes at a potential cost; all state grants are considered to be full and final apportionments by the SAB. Thus, districts are now responsible for any cost overruns or unanticipated costs associated with a project. Under the old Lease-Purchase Program, some of those costs were reimbursed by the state.

### *Establishing Eligibility*

To obtain state funding for new school construction projects, districts must first demonstrate that existing seating capacity is insufficient to house existing students or anticipated students using a five-year projection of enrollment. Districts may establish eligibility on a district-wide basis or, if only some areas within the district are facing capacity constraints, on a High School Attendance Area (HSAA) basis. Establishing eligibility involves three steps. In the first step, form SAB 50-01 is used to compute a five-year enrollment projection based on current and historical enrollment figures. Districts that are

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<sup>42</sup> Figure 3 is adopted from a schematic created by Abel et. al. (Winter 2004/2005), p. 11.

experiencing rapid residential growth may supplement these enrollment projections using information on the number of unhoused students that are anticipated as a result of new residential development. To do so, the district must submit to the OPSC either approved or tentative valid tract maps that show the size and density of proposed new developments.<sup>43</sup> In the second step, form SAB 50-02 is used to compute a district's existing capacity based on an inventory of the number of existing classrooms (or space that could be used as a classroom). Pupil capacity is computed by multiplying the number of existing classroom spaces by a load factor of 25 for elementary classrooms, 27 for middle and high school classrooms, 13 for non-severely disabled classrooms, and 9 for severely disabled classrooms. In the third step, form SAB 50-03 is used to determine eligibility. Existing pupil capacity is subtracted from projected enrollment to determine the number (if any) of unhoused students. The number of students computed to be unhoused represents the district's eligibility for new school construction grants.

The eligibility requirements for modernization projects are less complex. The eligibility application for modernization projects consists of a single form, SAB 50-03. To qualify for funding, a school building must be at least 25 years old or, in the case of a portable classroom, at least 20 years old. In addition, districts may submit applications for modernization projects on a site by site basis, rather than the district or HSAA-wide basis used for new school construction eligibility.

### *Applying for Funding*

New school construction projects are funded by the state on a per-pupil basis. The amount of the grant is determined by multiplying the number of unhoused students (determined in the eligibility phase), by a per-pupil grant that is adjusted annually by the SAB to account for changes in construction costs.<sup>44</sup> The current grant amounts per unhoused pupil are listed in Table 4. Supplemental grants are also available to fund special project needs. The most common supplemental grants are site acquisition grants and site development grants, which respectively cover costs associated with purchasing a site and preparing a site for construction.<sup>45</sup> Site acquisition and development grants are made on a 50/50 state and local matching basis.

The funding application for new school construction consists of a single form, SAB 50-04. While the form itself is relatively simple, districts must also file with their application a number of supporting

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<sup>43</sup> In 2005, the legislature enacted AB 491 which provides districts with an alternative enrollment projection. Districts that do not meet the standard criteria for eligibility may still be eligible for funding if they meet the following two criteria: (1) the district has two or more school sites with a pupil population density greater than 115 pupils per acre for elementary schools and 90 pupils per acre for middle and high schools, and (2) the district can not meet its housing needs at the impacted site after considering all existing eligibility mechanisms.

<sup>44</sup> The SAB uses the Class B construction Cost Index to annually update the per-pupil grants.

<sup>45</sup> Other supplemental grants include: fire code requirements, energy efficiency, special education, multi-level construction, project assistance, replacement with multi-story construction, geographic location, small size projects, new school projects, urban locations. For a detailed description of these supplemental grants see the School Facility Handbook.

documents. These include: (1) an appraisal, escrow closing statement or court order and a CDE site approval letter if the project involves site acquisition, (2) DSA approval of construction plans, (3) CDE approval of final plans, and (4) a set of district certifications that include (among other things) the establishment of a restricted maintenance account,<sup>46</sup> certification that the district will fund its share of the project, and certification that the district's Labor Compliance Program has been approved by the Department of Industrial Relations.

Modernization projects are also funded by the state on a per-pupil basis. The amount of the grant is determined by multiplying the number of students to be housed in a modernized building by a per-pupil grant that is adjusted annually by the SAB to account for changes in construction costs. Table 5 lists the per-pupil grant amounts for modernization projects. The funding application process for modernization projects is very similar to the process for new school construction. The application process consists of a single form, SAB 50-04, and a set of supporting documents that ensure the district has obtained DSA and CDE approval for its construction plans and obtained the requisite certifications. These certifications include: the establishment of a restricted maintenance account, verification that the building to be modernized was not previously modernized under the old Lease-Purchase Program, evidence that the district has obtained funding to meet its required 40% match for project costs, and approval from the DIR for the district's Labor Compliance Program.

### *Financial Hardship*

School districts unable to contribute some or all of the local matching funds required for new school construction and modernization projects may apply to the OPSC for financial hardship status. If financial hardship status is granted, districts can receive up to 100% state funding for eligible new school construction and modernization projects. Districts seeking financial assistance must have their financial hardship status approved prior to submitting an application with the OPSC for funding. To qualify for financial hardship funding, a district must demonstrate the following: (1) it is levying developer fees up to the maximum amount allowed by law; (2) it has made every reasonable effort to raise local revenue to fund a project;<sup>47</sup> and (3) evidence of financial inability to contribute the required local matching funds.<sup>48</sup>

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<sup>46</sup> The SFP requires school districts that receive state funding for new construction or modernization projects establish a restricted maintenance account to ensure that projects are kept in good repair. For a period of 20 years, districts are required to deposit no less than three percent of their general fund budget annually into the restricted maintenance account. Small districts may deposit less than three percent into the account if they can demonstrate an ability to maintain their facilities using a smaller amount of money.

<sup>47</sup> Specifically, a district must provide evidence of at least one of the following: existing debt is at least 60% of the district's bonding capacity, total bonding capacity is less than \$5 million, or evidence that the district held a successful school bond election in the past two years.

<sup>48</sup> The OPSC conducts an analysis of a district's financial status to determine whether it is eligible for financial hardship status. The process involves a number of worksheets used to determine a district's share (if any) of project costs.

### *The Critically Overcrowded School Facilities Program*

The Critically Overcrowded School (COS) Facilities program was created in 2002 with the passage of AB 16. The program allows districts with critically overcrowded school sites to reserve funding for new school construction projects for a period of up to four years. At the end of the four year period, districts with an approved COS project must convert their COS project into a new school construction project and meet all funding criteria set forth by the SFP's New Construction Program. Unlike the New Construction Program, the COS program allows eligible districts to reserve funding for new school construction prior to having identified a site for the construction and prior to having bid-ready construction plans.<sup>49</sup> Thus, the COS programs gives qualifying districts substantially more time to prepare an application for funding.

To qualify as critically overcrowded, elementary schools must have a student density greater than 115 students per acre while middle and high schools must have a student density greater than 90 students per acre.<sup>50</sup> The California Department of Education is responsible for maintaining a list of critically overcrowded schools. Once a school within a district has been placed on the CDE's critically overcrowded schools list, the district can file an Application for Preliminary Apportionment (a reservation of funds application) with the OPSC. Any project funded under the COS program must meet the following conditions: (1) relieve overcrowding by increasing the capacity of the district, (2) identify a minimum of 75% of the proposed student occupancy for the project as coming from schools listed on the CDE critically overcrowded schools list, and (3) be located within a one-mile radius of an elementary school that qualifies as critically overcrowded or within a three-mile radius of a secondary school that qualifies as critically overcrowded. Figure 4 illustrates the steps qualified districts must follow to obtain funding under the COS program.<sup>51</sup>

### *Joint-Use Projects*

The legislature enacted the Joint-Use Program with the passage of AB 16 in April of 2002. The program was further amended with the passage of SB 15 in 2003. The program allows districts to enter into a cost-sharing agreement for specified projects with a qualified joint-use partner.<sup>52</sup> In so doing, the program allows districts to consider projects that they may not have been able to afford otherwise. One hundred million dollars of Proposition 47 and 55 funding has been made available for the program. The

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<sup>49</sup> Abel et. al. (Winter 2004/2005), p. 10.

<sup>50</sup> These densities represent 200% of the CDE standard (recommended site density). Prior to implementing the program, the state legislature considered other density factors such as 150% or 125% of the CDE standard. Of course, the lower the density factor, the higher the number of schools that would qualify for the COS program. PolicyLink and MALDEF (2005) have suggested the density factor be reduced to allow more districts to participate in the COS program. This issue and other issues related the COS program are discussed in section 9.

<sup>51</sup> Figure 2 is taken from a schematic created by Abel et. al. (Winter 2004/2005), p. 10.

<sup>52</sup> Qualified joint-use partners include: governmental agencies, institutions of higher education, and nonprofit organizations.

Joint-Use Program funds two types of projects, commonly referred to as Type I and Type II. Type I joint-use projects must be part of a qualified new construction project that increases the size and/or cost of a project beyond what is necessary for school use of a multipurpose room, a gymnasium, a childcare facility, a library or a teacher education facility. Type II joint-use projects can be part of a modernization project or a stand-alone project that will add or expand a multipurpose room, gymnasium, childcare facility, library, or a teacher education facility.

Funding for joint-use projects is made on a 50/50 state and local matching basis. The joint-use partner is responsible for contributing a minimum of 25% of project costs and thus a local school district is responsible for a maximum of 25% of project costs.<sup>53</sup> Furthermore, if a school district passed a general obligation bond issue for the explicit purpose of building a joint-use project, the district may contribute the full 50% of the required local match. Similar to other programs administered under the SFP, all applications for joint-use projects must be accompanied by supporting documentation that demonstrates the district has received DSA and CDE approval for its construction plans. Apportionments for joint-use projects are made on a first-come first-served basis.

## **5. The Size and Distribution of School Facility Spending Since 1998**

As previously noted, California's current system of school facility finance was established in 1998 with the passage of SB 50. Since that time, revenue from state and local general obligation bond issues, developer fees and several other revenue sources have provided approximately \$71 billion for new school construction and renovation projects throughout the state. This section describes the level and distribution of school facility funding in California since 1998.

### *The Level of School Facility Funding*

Table 6 summarizes the total revenue made available to local school districts for new school construction and modernization projects from 1998 to the present. The first column of Table 6 lists five sources of revenue for school facility projects. The second column lists the aggregate revenue raised from each of those sources, while the third column lists the percentage of total revenue derived from each source.<sup>54</sup> As Table 6 reveals, most revenue for new school construction and modernization comes from three sources: local general obligation bonds, state aid and developer fees. Collectively, these three sources of revenue represent 93% of all funding available to school districts.<sup>55</sup> School districts also

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<sup>53</sup> Unlike other SFP programs, financial hardship assistance is not available for joint-use projects. If a district is unable to fund some portion of its share of project costs, the state apportionment is reduced.

<sup>54</sup> All revenue figures reported in Table 6 are adjusted for inflation using the producer price index and measured in constant 2005 dollars.

<sup>55</sup> Information on the revenue raised through successful local general obligation bond elections was obtained from EdSource and represents all revenue raised from 1998 through June 2006. Information on state apportionments to



receive revenue from successful Mello-Roos and School Facility Improvement District elections (approximately 1% of total funding) and from various “other” revenue sources (approximately 6% of total funding). These “other” sources include: Certificates of Participation (COP’s) which represent short-term debt, revenue from the sale or lease of land and/or buildings, federal aid, and other smaller sources of revenue.<sup>56</sup> Between 1998 and June of 2006 school districts raised \$38.4 billion for new school construction and modernization projects through local general obligation bond issues. Over the same time period, the state apportioned \$21.9 billion to local school districts. That amount represents nearly all of the revenue from Proposition 1A and Proposition 47 and approximately 56% of the revenue from Proposition 55.

Two other studies examined the composition of revenue for new school construction and renovation projects in California during the period just prior to the passage of SB 50. A comparison of the results reported in those studies with the results reported in Table 6 suggests that since 1998, local school districts have relied more heavily on local general obligation bonds to finance school construction and modernization projects. Specifically, Brunner and Rueben (2001) examined the composition of revenue for new school construction and modernization between 1992 and 1998. Over that time period, local general obligation bonds constituted approximately 32% of total facility funding, state aid constituted approximately 30% and developer fees constituted approximately 11%. Similarly, the Legislative Analyst’s Office (2001) examined the composition of revenue between 1987 and 1998 and found that local general bonds constituted about 32% of total funding, while state aid and developer fees respectively constituted about 40% and 17%. Thus, in recent years, the share of revenue coming from local general obligation bonds has risen from approximately 32% to 53%. This increased reliance on G.O. bond revenue is most likely attributable to the passage of Proposition 39 in November of 2000.

Table 7 summarizes the three largest sources of revenue in terms of average revenue per pupil. The per-pupil revenue figures reported in the table represent the sum of all revenue raised between 1998 and the present (measured in constant 2005 dollars) divided by the average enrollment over the time period. Local general obligation bond revenue averaged \$4,051 in unified districts, \$3,293 in elementary districts, and \$6,951 in high school districts. Furthermore, these averages mask considerable variation in the number of districts that held a successful G.O. bond election and the amount of revenue raised by those school districts that held a successful election. For example, 57% of unified school districts (188

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school districts was obtained from the Office of Public School Construction and represents all apportionments made from 1998 through June 2006 (the data of the last SAB meeting). Finally, information on developer fee revenue was obtained from yearly school district accounting records (J-200 and SACS) provided by the California Department of Education and represents all revenue raised from 1998-99 through 2004-05.

<sup>56</sup> Information on successful Mello-Roos and SFID elections was obtained from EdSource while information on “other” sources of revenue was obtained from yearly school district accounting records prepared by the California Department of Education.

out of 331) held at least one successful G.O. bond election over the time period and among those districts the average amount raised per pupil was \$7,134. Similarly, 30% (166 out of 548) of elementary districts and 58% (48 out of 83) of high school districts held a successful G.O. bond election over the time period and among those districts the average amount raised was \$10,872 for elementary districts and \$12,019 for high school districts. One district in particular stands out, namely Los Angeles Unified. Between 2002 and 2005, voters in LA Unified approved \$11.2 billion in local general obligation bonds or, on a per-pupil basis, \$15,114. Overall, local G.O. bond revenue constitutes 42% of total per-pupil funding for unified districts, 40% for elementary districts and 50% for high school districts. Similarly, state aid constitutes 36% of total funding for unified districts, 42% for elementary districts and 34% for high school districts.

### *The Distribution of School Facility Funding*

The averages reported in Table 7 mask wide variations in the distribution of school facility funding across districts. Table 8 illustrates how per-pupil revenue for new school construction and modernization is distributed across school districts. The percentiles listed in the table are weighted by the number of students in each district. For example, 10% of students in unified school districts were enrolled in a district where total revenue per pupil was less than \$4,274. For each type of school district, the first row gives the distribution of local general obligation bond revenue per pupil. The second row shows how the distribution changes when state aid per pupil is added to local G.O. bond revenue. Finally, the third row shows the distribution of total revenue per pupil (local G.O. bond revenue plus state aid plus all other sources of revenue). For all three types of school districts, total revenue per pupil at the 75<sup>th</sup> percentile is more than double that of the 25<sup>th</sup> percentile. These large disparities are partly due to the distribution of local general obligation bond revenue across districts. For example, in unified school districts, local G.O. bond revenue at the 75<sup>th</sup> percentile is more than seven times that of the 25<sup>th</sup> percentile. These large disparities in local bond revenue per pupil are partially offset by state aid and other sources of revenue but large disparities persist across districts.

Of course, part of this variation in school facility funding across districts may simply reflect differences in need. For example, student enrollment might be increasing rapidly in some districts and declining or remaining stable in others. Similarly, some districts might have invested heavily in new school construction and modernization in the period just prior to 1998 and thus have little need for further investment in school facilities. On the other hand, the variation in school facility funding across districts might also reflect differences in the ability to fund new school facility projects. High-income districts and districts with high property wealth, for example, might be more willing and able to finance new school construction and modernization projects. The next section addresses these possibilities by examining how variation in school facility funding is related to measures of need and measures of ability to pay.

## 6. Explaining the Variation in School Facility Funding

The need for school facility funding arises primarily for two reasons: (1) capacity constraints due to enrollment growth and (2) modernization/renovation needs due to the aging of the existing capital stock. Consequently, this section begins by examining how variation in school facility funding across districts is related to enrollment growth and prior investment in school infrastructure.

### *Need and the Distribution of School Facility Funding*

Table 9 illustrates how per-pupil facility funding is related to the growth rate of district enrollment between 1998-99 and 2004-05. For each type of school district, the table shows how revenue per pupil is distributed when school districts are separated into quintiles of enrollment growth.<sup>57</sup> The quintiles listed in the table are weighted by student enrollment so that each quintile contains 20% of the total student enrollment in the state. For example, 20% of students in unified school districts were enrolled in a district where enrollment growth was less than 0.8% (the first quintile). Similarly, 20% of students in unified districts were enrolled in a district where enrollment growth was greater than 18% (the fifth quintile).

As Table 9 reveals, school facility funding appears to be positively related to enrollment growth. In unified districts, total revenue per pupil averaged \$7,960 among districts in the first quintile of enrollment growth while it average \$14,725 among districts in the fifth quintile. Elementary and high school districts with the highest enrollment growth rates also tend to have higher total revenue per pupil. Table 9 also reveals that the distribution of total revenue per pupil is primarily driven by the distribution of state aid. For each type of school district, state G.O. bond apportionments increase steadily across the quintiles of enrollment growth. Of course the strong positive relationship between enrollment growth and state aid is to be expected, given that funding for new school construction is based primarily on current and projected enrollment growth. What is slightly more surprising is the relationship between local general obligation bond revenue and enrollment growth. One would expect local G.O. bond revenue to be positively related to enrollment growth as districts with high enrollment growth rates should have greater need for school facility funding. However, Table 9 reveals that local G.O. bond revenue is only weakly related to enrollment growth. In particular, among unified and elementary districts there appears to be no systematic relationship between local bond revenue per pupil and enrollment growth. Districts in the first quintile of enrollment growth raise about the same amount of revenue through local G.O. bond

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<sup>57</sup> For the remainder of this study per-pupil revenue is measured as the sum of all revenue raised between 1998 and the present (measured in constant 2005 dollars) divided by the average enrollment over the time period.

elections as districts in the fifth quintile.<sup>58</sup> Among high school districts, there is a large difference in local bond revenue between the first and second quintiles of enrollment growth but little difference in revenue between the remaining quintiles.

Table 10 illustrates how revenue per pupil is related to an alternative measure of need, namely the amount districts spent in previous years on school construction and modernization projects. For each type of district, the table shows how revenue per pupil is distributed across school districts when districts are separated into quintiles of previous investment in school facilities. The quintiles are once again weighted by student enrollment. Previous school facility investment is measured as the sum of all school facility spending within a district from 1969 to 1997, adjusted for depreciation. Specifically, for each school district, the aggregate value of school facility investment over the 29 year period spanning 1969 to 1997 was calculated as:

$$K_{1998} = \sum_{j=0}^{28} I_j \cdot (1 - \delta)^{28-j},$$

where  $K_{1998}$  denotes the aggregate value of school facility investment as of 1998,  $I_j$  denotes school facility investment in year  $j$  (1969, 1970 ..., 1997), measured in constant 2005 dollars, and  $\delta$  is the geometric rate of depreciation.<sup>59</sup> Data on aggregate investment for various years were obtained from the *Annual Report of Financial Transactions Concerning School Districts of California*, prepared by the California State Controller. The nominal investment data were converted into constant 2005 dollars using the producer price index.<sup>60</sup>

As Table 10 illustrates, among unified districts there appears to be no systematic relationship between prior investment in school facilities and current facility revenue per pupil. Local G.O. bond revenue, state aid and total revenue per pupil are relatively evenly distributed across quintiles.<sup>61</sup> In contrast, among elementary and high school districts there appears to be a negative relationship between

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<sup>58</sup> The relatively large spike in the 3<sup>rd</sup> quintile of local G.O. bond revenue for unified districts is driven by Los Angeles Unified which makes up the bulk of that quintile. Excluding Los Angeles Unified from the analysis causes local G.O. bond revenue in the 3<sup>rd</sup> quintile too fall to levels similar to other quintiles.

<sup>59</sup> Holtz-Eakin (1993) reports an estimate of the depreciation rate of non-residential state and local capital of 4.1%. I use his depreciation rate to calculate the aggregate value of school facility investment in prior years.

<sup>60</sup> Between 1969 and 1998, a substantial number of California's elementary and high school districts were consolidated into unified districts. For those school districts, I used school district consolidation records, obtained from the California Department of Education, to identify the elementary schools and high schools that merged to form a new unified school district. For the years prior to the formation of a unified school district, I measured total capital outlay for that school district as the sum of all capital outlays made by the elementary and high school districts that eventually consolidated to form the unified district. Using that procedure I was able to obtain a complete time series of annual investment flows for all school districts currently operating in California.

<sup>61</sup> Los Angeles Unified falls in the 2<sup>nd</sup> quintile. Omitting Los Angeles Unified from the analysis does not affect the pattern of results reported in Table 10.

prior investment and total revenue per pupil. For example, total revenue per pupil averaged \$9,941 among elementary districts located in the first quintile (the lowest quintile of prior investment) while it averaged only \$6,579 among districts located in the fifth quintile (the highest quintile of prior investment). Similarly, local bond revenue averaged \$4,656 among elementary districts located in the first quintile while it averaged only \$2,467 among districts in the fifth quintile. High school districts exhibit a similar pattern, with districts in the first quintile of previous investment having substantially higher local bond revenue and total revenue than districts in the fifth quintile.<sup>62</sup>

Collectively, Tables 9 and 10 suggest that at least part of the variation in school facility funding across districts can be explained by differences in need: in general, districts with higher enrollment growth rates and districts with lower levels of prior investment in school facilities tend to have higher revenue per pupil. Nevertheless, given the large disparities in school facility funding reported in Table 8, it seems likely that other factors are also driving the distribution of funding across districts. The next part of this section therefore focuses on examining how the distribution of school facility funding is related to measures of ability to pay for new school construction and modernization projects.

#### *Ability to Pay and the Distribution of School Facility Funding*

Table 11 shows the distribution of revenue per pupil when districts are separated based on quintiles of median household income.<sup>63</sup> The quintiles are once again weighted by student enrollment. As Table 11 reveals, there appears to be a relatively strong positive relationship between median household income and revenue per pupil: districts with the highest median household income tend to have substantially higher revenue per pupil.<sup>64</sup> For all three types of school districts, total revenue per pupil among districts in the fifth quintile is double that of districts in the first quintile. For example, total revenue per pupil averaged \$10,196 among high school districts in the lowest quintile of income while it averaged \$24,186 among districts in the highest quintile of income. The distribution of total revenue per pupil in Table 11 is primarily driven by the distribution of local bond revenue. In particular, local G.O. bond revenue appears to increase rather continuously with district income. Furthermore, compared to districts in the first through fourth quintiles, districts in the fifth quintile (those districts with the highest median income) appear to raise substantially more revenue through local G.O. bond elections.

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<sup>62</sup> I also examined the sensitivity of these results to the time span chosen to measure prior investment expenditures. In particular, I also created a measure of prior investment that only included investment from 1986 (when local general obligation bonds were reinstated) to 1998. Using this alternative measure of prior investment I obtained results that were qualitatively similar to those reported in Table 10.

<sup>63</sup> Data on the median household income of districts comes from special school district tabulations of the 2000 census prepared by the U.S. Census Bureau and the National Center for Education Statistics.

<sup>64</sup> Los Angeles Unified falls in the 1<sup>st</sup> quintile. Omitting Los Angeles Unified from the analysis does not affect the pattern of results reported in Table 11.

Table 11 provides another explanation for the large disparities in school facility funding across districts, namely a willingness among high-income districts to spend more on school facilities than low-income districts. In particular, high-income districts tend to have higher total revenue per pupil primarily because they tend to raise more money through local general obligation bond elections than low-income districts. However, income is only one of the factors that affects the willingness and ability of districts to fund new school construction and modernization projects. The other primary factor is district property wealth.

As noted in section 2, the passage of Proposition 46 in 1986 reinstated the authority of school districts to issue general obligation bonds, subject to the approval of voters within a district. General obligation bonds are repaid with revenue raised from property tax overrides that remain in effect until the bonds are fully repaid. The reliance upon the local property tax to finance general obligation bonds leads naturally to the question of how differences across districts in assessed value per pupil affect the ability and willingness of districts to finance school facility spending locally. Specifically, property wealth affects the ability of school districts to raise revenue through local general obligation bond elections in two distinct ways. First, school districts can only issue bonds up to their debt capacity limit, which is set at 1.25 percent of assessed value for elementary and secondary districts and 2.5 percent for unified school districts. Thus, debt limits may place an institutional constraint on the amount of bond revenue low-assessed value districts can raise. While debt capacity limits may not be binding for unified and high school districts, which tend to have relatively high limits, an analysis by the Coalition for Adequate School Housing (CASH) suggests that these debt capacity limits may significantly constrain the ability of many elementary districts from raising funds through general obligation bond issues (CASH 1997). Second, differences across districts in assessed value per pupil directly affect the tax-price of school facility spending. The tax-price is the additional property tax burden a homeowner faces when spending per pupil is increased by one dollar. That tax-price equals the assessed value of a voter's home divided by the district's total assessed value per pupil. Note that the tax-price of school facility spending is inversely related to the assessed value of property within a district. Thus, all else equal, districts with higher assessed value per pupil face a lower tax-price which may manifest itself in a higher demand for school facility spending.<sup>65</sup>

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<sup>65</sup> Note that the tax-price of school spending may differ across school districts for other reasons as well. First, holding the assessed value of property within districts constant, districts with lower enrollments will have a higher assessed value per pupil and thus face a lower tax-price. Second, all else equal, residents in districts with a higher percentage of nonresidential property will face a lower tax-price since some of the additional tax burden necessary to finance an increase in facility spending is shifted to the owners of nonresidential property.

Table 12 documents the relationship between school facility funding and assessed value per pupil.<sup>66</sup> For each type of school district, the table shows how revenue per pupil varies when school districts are separated into quintiles of assessed value per pupil. Once again, these quintiles are weighted by student enrollment. As Table 12 reveals, there appears to be a strong positive relationship between local bond revenue per pupil and assessed value per pupil.<sup>67</sup> Compared to districts in the lowest quintile of assessed value per pupil, districts in the highest quintile have substantially higher local bond revenue. In unified and high school districts it is more than three times higher and in elementary school districts is more than ten times higher.

Table 12 also reveals a strong positive relationship between assessed value per pupil and total revenue per pupil. Total revenue per pupil averaged \$6,889 among unified districts in the first quintile while it averaged \$13,507 among districts in the fifth quintile. Similar disparities in total revenue per pupil across quintiles exist for elementary and high school districts. The wide variation in total revenue per pupil across districts is directly related to the variation in local bond revenue. For example, in unified districts, the \$4,482 difference in average local G.O. bond revenue between the first and fifth quintiles explains approximately 68% of the difference in total revenue. In elementary and high school districts, differences in local bond revenue across quintiles account for an even greater proportion of the difference in total revenue.

Finally, it is worthwhile to note that the averages reported in Table 12 mask considerable variation across quintiles in the amount of revenue raised by school districts that held successful general obligation bond elections. For example, of the 79 unified districts with assessed value per pupil of \$337,000 or less (those in the first quintile), 40 held a successful bond election and among those districts bond revenue per pupil averaged just \$4,002 per pupil. In contrast, among the 78 unified districts with assessed value per pupil of \$800,000 or more, 45 held a successful bond election and among those districts bond revenue per pupil averaged \$11,328. The relationship between assessed value per pupil and local bond revenue per pupil is illustrated more clearly in Figure 5. The vertical axis gives local G.O. bond revenue per pupil for those districts that held a successful local bond election between 1998 and June of 2006, while the horizontal axis gives the assessed value per pupil in those districts. Figure 5 illustrates a strong positive relationship between assessed value per pupil and local bond revenue per

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<sup>66</sup> To my knowledge, no state agency collects information on the assessed value of property within school districts. Consequently, I contacted the Auditor Controller's office of each county in California and requested the data. Fifty out of 58 counties responded to my request and provided data on assessed value by school district for the 2005-06 tax year. With the exception of San Joaquin County, all of the counties that did not respond were small rural counties. As a result, while the data on assessed value covers only 50 out of California's 58 counties, it covers 95% of all school districts and 97.5% of all students.

<sup>67</sup> Los Angeles Unified falls in the 3<sup>rd</sup> quintile. The results reported in Table 12 are essentially unchanged if Los Angeles Unified is omitted from the analysis.

pupil. Furthermore, as Table 13 reveals, this strong positive relationship between assessed value and local bond revenue translates directly into a strong positive relationship between assessed value and total revenue per pupil.

Table 13 examines how school facility funding is related to one final measure of interest to policy makers, namely the percentage of students that are nonwhite. Specifically, Table 13 shows how revenue per pupil is distributed across school districts when districts are separated into quintiles based on the percentage of nonwhite students.<sup>68</sup> In contrast to the results reported in Tables 11 and 12, there appears to be no systematic relationship between revenue per pupil and the percentage of nonwhite students. For all three types of school districts, local bond revenue, state aid, and total revenue per pupil are all rather equally distributed across quintiles.<sup>69</sup>

Taken together, Tables 9 through 12 and Figure 5 suggest that disparities in school facility funding across districts are related to both measures of need, such as enrollment growth and prior facility investment, and measures of willingness and ability pay, such as income and assessed value per pupil. To determine which factors are most important in explaining the level of school facility funding, the remainder of this section turns to multivariate regression analysis.

### *Regression Results*

Column one of Table 14 reports coefficient estimates from a model designed to explain total revenue per pupil. The dependent variable is the log of total facility funding per pupil over the period 1998 to the present. The primary independent variables are: the log of assessed value per pupil, the log of median household income, the growth rate of enrollment between 1998 and 2005, the log of previous facility investment expenditures per pupil, and the fraction of students that are nonwhite in a district. The model also includes the log of district enrollment to account for economies of scale and size effects on the level of school facility funding and two indicator variables: one that takes the value of unity if a district is an elementary district and the other that takes the value of unity if a district is a high school district. These final two variables are included in the model to allow the level of school facility funding to differ across types of districts.

The coefficient estimates reported in column one of Table 14 are generally consistent with expectations. For example, the estimated coefficients on the log of assessed value per pupil and enrollment growth are both positive and statistically significant at the 5% level. Similarly, the coefficient on previous investment is negative and statistically significant, indicating that districts that invested

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<sup>68</sup> Data on the ethnic composition of school districts in 2004-05 comes from reports prepared by the California Department of Education. The quintiles reported in Table 13 are weighted by district enrollment.

<sup>69</sup> Los Angeles Unified is located in the 4<sup>th</sup> quintile. Omitting Los Angeles Unified from the analysis causes local G.O. bond revenue in the 4<sup>th</sup> quintile to fall considerably from \$4,644 to \$2,862.



heavily in the past in school facilities tend to receive lower facility funding. Furthermore, consistent with the results reported in Table 11, the fraction of minority students in a district appears to have little effect on the level of school facility funding. Turning to the interpretation of the estimated coefficients, the results indicate that a 1% increase in assessed value per pupil results in approximately a 0.56% increase in total revenue per pupil while a 1% increase in enrollment growth results in approximately a 0.76% increase in total revenue per pupil. District size also appears to have a large effect on revenue per pupil. Specifically, the results indicate that a 1% increase in district enrollment leads to approximately a 0.53% increase in total revenue per pupil. Of course, the enrollment variable most likely captures the fact that elementary districts, which tend to be much smaller, also tend to receive lower funding per pupil.

The second column of Table 14 reports coefficient estimates from a model designed to explain local G.O. bond revenue per pupil. The dependent variable in the model is the log of local bond revenue per pupil. The independent variables are the same variables used to explain total revenue per pupil. Districts that failed to raise any revenue through local bond elections are excluded from the sample. As a result, the sample size falls from 904 observations to 386 (the number of districts that held a successful bond election between 1998 and June of 2006). In column 2, the estimated coefficients on the log of assessed value per pupil and the log of median household income are both positive and statistically significant. Thus, the results indicate that high-wealth and high-income districts tend to raise more revenue through local bond elections. The estimated coefficient on the log of assessed value per pupil is also quite large. Specifically, the results indicate that a 1% increase in assessed value per pupil leads to approximately a 0.77% increase in bond revenue per pupil. In fact, assessed value per pupil is responsible for explaining most of the variation in local bond revenue. Specifically, a simple regression of the log of local bond revenue per pupil on the log of assessed value per pupil yields an R-Squared of 0.52, indicating that 52% of the variation in local bond revenue is explained by this variable alone. Furthermore, as seen by the R-Squared reported in column 2, adding all the other explanatory variables to the model only increases the R-Squared from 0.52 to 0.57. Several of the other coefficients reported in column 2 are also of interest. For example, the coefficient on percent minority is positive and statistically significant indicating that districts with higher fractions of minority students tend to raise more money through local G.O. bond elections. Similarly, the coefficient on enrollment growth is positive and statistically significant at the 10% level. Note, however, that the magnitude of the estimate coefficient on enrollment growth is small. Thus, consistent with the results reported in Table 9, bond revenue per pupil appears to be only weakly related to enrollment growth.

The final column of Table 14 reports coefficient estimates from a model designed to explain the probability of having a successful local G.O. bond election. In this model, the dependent variable is an indicator variable that takes the value of unity if a district had a successful bond election between 1998

and June of 2006 and zero if it did not. Once again, the independent variables are the same as those used in columns 1 and 2. The model is estimated as a logistic regression. The coefficient on assessed value per pupil is positive and statistically significant indicating that districts with higher assessed value per pupil are more likely to hold a successful G.O. bond election. The results also indicate that larger districts and those with a higher percentage of minority students are more likely to hold a successful bond election. In contrast, districts that invested heavily in the past in school infrastructure are less likely to hold a successful bond election. Finally, relative to unified and high school districts, elementary districts are significantly less likely to hold a successful bond election.

The results reported in Table 14 reveal several interesting patterns. First, total revenue per pupil is positively related to assessed value per pupil primarily because assessed value per pupil is the primary determinant of local G.O. bond revenue. Specifically, assessed value per pupil drives both the level of bond revenue raised (conditional on having a successful bond election), and the probability of having a successful bond election. Second, while there is only a weak positive relationship between enrollment growth and local bond revenue per pupil, there is a much stronger positive relationship between total revenue per pupil and enrollment growth. As Table 9 illustrated, this strong positive relationship between total revenue and enrollment growth is driven primarily by the distribution of state aid. Finally, conditional on other factors, there is only a weak positive relationship between total revenue per pupil and district income. High-income districts tend to have higher total revenue per pupil primarily because they raise more revenue through local G.O. bond elections.

To more clearly see how assessed value per pupil, enrollment growth and other factors affect the distribution of total revenue per pupil, Table 15 presents the predicted level of total facility funding per pupil calculated using the coefficient estimates reported in column 1 of Table 14. Specifically, Table 15 shows how moving from the 25<sup>th</sup> percentile of a given variable to the 75<sup>th</sup> percentile of that variable affects the level of total facility funding per pupil while holding all other variables at their means. For example, if enrollment growth increased from -8% (the 25<sup>th</sup> percentile of enrollment growth) to 15% (the 75<sup>th</sup> percentile) total revenue per pupil would increase from \$3,144 to \$3,741, or by \$597. Similarly, if a district's assessed value changed from \$392,052 to 1,130,002 total revenue per pupil would increase by \$2,064. As Table 15 reveals, both measures of need and measures of ability to pay appear to be important determinants of the distribution of facility funding across districts. Measures of need such as enrollment growth and previous investment in school facilities have relatively large effects on the distribution of facility funding. In terms of ability to pay, assessed value per pupil appears to play the dominant role in explaining the distribution of facility funding across districts.

To examine the robustness of the results reported in Table 14, I also estimated models based on several alternative specifications. To examine whether the results were sensitive to regional variation in

the demand for school facility spending, I first estimated models that included a set of 11 regional fixed effects. These regional fixed effects control for any unobserved regional variation in the demand for school facility spending. The regions consist of contiguous counties and are described in detail by Betts, Reuben and Danenberg (2000). The inclusion of these regional fixed effects caused the coefficient on assessed value to rise slightly in the total revenue equation and in the probability of holding a successful bond election equation. In general, however, results based on models that included regional fixed effects were qualitatively and quantitatively similar to those reported in Table 14. I also estimated separate regression models for each type of school district (unified, elementary and high school). Results based on those alternative specifications are reported in Tables 1A, 2A, and 3A of the Appendix. Specifically, Table 1A reports results when the total revenue equation is estimated separately for each type of district. Similarly, Tables 2A and 3A report results when the bond revenue equation and the probability of having a successful bond election equation are estimated separately for each type of school district. A brief inspection of the results reported in those tables reveals several interesting patterns. First, for unified and elementary districts, the coefficients on assessed value per pupil reported in Tables 1A, 2A, and 3A are quite similar to those reported in Table 14, suggesting that assessed value has a similar effect on both types of districts. In contrast, for high school districts, the coefficient on assessed value per pupil is statistically insignificant in both the total revenue equation and the probability of having a successful bond election equation, suggesting that assessed value plays a less important role in those districts. However, given the small sample size for high school districts, those results should be interpreted with caution. Table 1A also suggests that income tends to play a more important role in explaining variation in total revenue per pupil across elementary and high school districts, and that enrollment growth tends to play the most important role in explaining variation in total revenue per pupil across high school districts.

## **7. Critically Overcrowded and Multi-Track Year-Round Schools**

The previous section demonstrated that districts with higher enrollment growth and/or lower levels of previous investment in school facilities tend to receive higher levels of facility funding. Thus, districts with greater facility needs appear to receive higher levels of facility funding. On the other hand, it also appears that ability to pay has a relatively large impact on facility funding. Districts with high assessed value per pupil tend to have significantly higher levels of school facility funding. These results raise an important question: do districts with the most critical facility needs receive higher levels of facility funding? While quantifying facility needs is difficult, there are two objective measures of need that can be examined: schools that the California Department of Education (CDE) classifies as critically overcrowded and schools that operate on a multi-track year-round calendar. This section examines how the characteristics of critically overcrowded and multi-track schools differ from other schools. It also

examines how school facility funding in districts that contain critically overcrowded and multi-track schools compares to other districts.

As noted previously, the CDE classifies a school as critically overcrowded if it has a student density that is 200% or more of the CDE's recommended density. For elementary schools, that translates into a density of more than 115 students per acre while for middle and high schools it translates into a density of more than 90 students per acre. The multi-track year-round calendar was introduced in California to help alleviate overcrowding. Multi-track year-round calendars allow schools to increase their seating capacity by 30% or more, by placing students into tracks and then rotating those tracks throughout the year. Thus, at any given point in time, one track is on vacation while the other tracks are attending classes.<sup>70</sup> Currently, approximately 804,000 students attend one of the 751 schools operating on a multi-track year round calendar.<sup>71</sup> Districts that choose to implement a multi-track calendar are eligible for additional operational funding to compensate for the multi-tracking of students. Specifically, the Year Round Grant Program, administered by the State Department of Education, provides additional funding to districts that implement or maintain a year-round multi-track program. Funding is based on the percentage of pupils certified in excess of facility capacity. The amount of the grant increases with the percent of students housed in excess of facility capacity. For example, if 5 to 9 percent of students are housed in excess of facility capacity the maximum grant amount is \$824.50 per student in excess of capacity. If 20 to 24 percent of students are housed in excess of facility capacity the maximum grant amount is \$1,401.65 per student in excess of capacity.<sup>72</sup> Districts that receive funding under the Year Round Grant program have their new construction eligibility in the SFP program reduced based on the number of pupils for whom they have received funding. Thus, school districts that participate in the program are voluntarily choosing to reduce their eligibility for new school construction funding.

Table 16 shows the percent of students in California that attend critically overcrowded or multi-track schools as of 2004-05.<sup>73</sup> Overall, approximately 16% of students are enrolled in a school that the CDE defines as critically overcrowded, while 22% of students are enrolled in a school that is either critically overcrowded or utilizes a multi-track year-round calendar.<sup>74</sup> As Table 16 reveals, a disproportionate number of nonwhite and low-income students attend critically overcrowded or multi-track schools. For example, while overall 16% of students attend critically overcrowded schools, only 5%

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<sup>70</sup> See Oakes (2002) for an excellent discussion of multi-track year-round schooling.

<sup>71</sup> Assembly Education Committee, Education Infrastructure Hearing #1, January 25, 2006.

<sup>72</sup> These grant amounts are as of 2005-06. See the California Department of Education website for the latest grant amounts under the Year Round Grant Program.

<sup>73</sup> Table 16 is an update of a table created by Pastor and Reed (2005) who use data from 2002-03.

<sup>74</sup> These calculations were made using data from the California Department of Education on school-level enrollment in 2004-05 and the CDE's list of critically overcrowded schools and schools that operate on a multi-track year-round calendar.

of White students attend such schools while 22% of African American and 23% of Hispanic students attend these schools. Furthermore, as the last two columns of Table 16 reveal, in Los Angeles Unified nearly 80% of all students attend a critically overcrowded or multi-track school. However, unlike other school districts, critically overcrowded schools in Los Angeles Unified do not appear to enroll a disproportionate number of African American students. Specifically, while overall 78% of students in Los Angeles Unified are enrollment in a critically overcrowded school, only 70% of African American students attend such a school.

Table 17 provides the same information as Table 16 in a slightly different manner. It shows how the characteristics of critically overcrowded and multi-track schools differ from other schools. For example, in the average critically overcrowded or multi-track school, approximately 73.2% of students are eligible for free or reduced price lunch. In all other schools, that percentage is only 45.2. Overall, Table 17 reveals that critically overcrowded and multi-track schools contain much higher percentages of poor and minority students and much lower percentages of white students.

Table 18 compares the level of school facility funding among districts that contain critically overcrowded or multi-track schools to the level of funding in other districts. Facility funding is expressed in per-pupil terms and is measured as the sum of all revenue raised between 1998 and the present divided by average enrollment over the time period. Compared to districts that contain no critically overcrowded or multi-track schools, those that do, tend to have higher revenue per pupil. For example, total revenue per pupil averaged \$11,323 among the 46 districts that contained critically overcrowded schools and \$10,459 among the 107 districts that contained either critically overcrowded or multi-track schools. In comparison, total revenue per pupil averaged \$9,061 among the remaining 855 districts. Table 18 also illustrates that districts with critically overcrowded and multi-track schools tend to have higher local bond revenue per pupil and higher state aid per pupil.

While total revenue per pupil tends to be higher in districts with critically overcrowded schools, it is much higher in Los Angeles Unified, which contains nearly 50% of all schools on the CDE's critically overcrowded school list. For example, total revenue per pupil in Los Angeles Unified is nearly twice the level of other districts with critically overcrowded schools and more than twice the level of districts with no critically overcrowded or multi-track schools. Similarly, local bond revenue in Los Angeles Unified is nearly three times that of other districts with critically overcrowded or multi-track schools and more than four times that of all other districts.

While local bond revenue and total revenue tend to be higher in Los Angeles Unified, state aid tends to be lower. Between 1998 and June of 2006, Los Angeles Unified received \$2,860 per-pupil in state aid. In contrast, state aid averaged \$4,133 among all districts with critically overcrowded or multi-track schools and \$3,495 among all other districts. Recall, however, that state aid represents state funding

that has been *apportioned* to school districts for new school construction and modernization projects. When the state implemented the COS program in 2002, it allowed districts with critically overcrowded schools to reserve funding for up to five years (four years plus a possible one-year extension). As a result, a substantial proportion of the funding allocated to the COS program may not have been apportioned to school districts as of June of 2006.

The fourth row of Table 18 attempts to quantify how much additional state aid districts with critically overcrowded schools are likely to receive once they turn their preliminary (reserved) COS apportionments into actual apportionments. Specifically, the fourth row shows the per-pupil *preliminary* COS apportionments from Proposition 47 and 55. On average, districts with critically overcrowded schools stand to receive an additional \$531 per pupil in state aid once they convert their preliminary apportionments. Furthermore, funding for the COS program is not equally distributed across all districts: while Los Angeles Unified contains approximately 50% of all critically overcrowded schools, approximately 75% of all COS program funding has been reserved for Los Angeles Unified.<sup>75</sup> That amounts to approximately \$3,761 per pupil in additional state aid for Los Angeles Unified alone. Thus, once one considers both actual state apportionments and preliminary state apportionments for the COS program, state aid in Los Angeles Unified is substantially higher than in other districts.

## **8. Charter School Facility Funding**

Sections 2 through 7 documented facility funding for traditional K-12 public schools in California. This section provides an overview of charter school facility funding. Charter schools face unique facility challenges for several reasons. First, unlike public school districts, charter schools cannot, by themselves, issue local general obligation bonds to finance their school facility needs. Second, a majority of charter schools in California are start-ups that do not have direct access to public school facilities. Many of these start-up schools obtain facilities by leasing or renting space in office buildings and other commercial sites. For example, a survey conducted by the Rand Corporation in 2002 found that approximately 40% of start-up charter schools leased space from commercial sites, while 24% obtained facilities by either purchasing or renting a privately owned facility.<sup>76</sup> These schools incur leasing and rental expenses that traditional K-12 public schools do not. Third, because lending institutions view charter schools as high-risk investments, many charter schools have found it difficult to obtain the loans necessary to finance school facilities.<sup>77</sup> These unique facility issues have led some researchers to conclude that, “an inadequate supply of school facilities may be the single largest stumbling block to the

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<sup>75</sup> District-level data on preliminary apportionments for the Critically Overcrowded School Program was obtained from the Office of Public School Construction.

<sup>76</sup> Krop and Zimmer (2005), p. 19.

<sup>77</sup> EdSource (2004), p. 23.

growth of charter schools.”<sup>78</sup> This section begins by providing an overview of the challenges faced by charter schools in obtaining school facilities. It then goes on to discuss how recent legislation and several court cases have affected the ability of charter schools to obtain adequate facilities. It ends by discussing charter school facility funding options that have recently become available.

The first charter schools were established in California in 1993 after the state legislature enacted SB 1448, the Charter Schools Act of 1992. Among other things, the Act capped the number of charter schools in the state at 100 (with no more than 10 charter schools in any single district) and prohibited private schools from being converted into charter schools. While the Act provided significant detail on the financing of current operating expenditures for charter schools it made no mention of charter school facility issues. The failure of the original legislation to address charter school facility needs stems partly from an underlying belief among its framers that charter schools would be “conversions” and utilize district facilities.<sup>79</sup> However, as early as 1995, nearly 50% of charter schools were start-ups with no access to existing school facilities.<sup>80</sup> As mentioned previously, these start-ups typically faced significant facility challenges due to rental and leasing costs and difficulties in obtaining loans to secure facilities. Furthermore, many school districts were experiencing facility shortages in the 1990’s making it difficult for them to find adequate housing for conversion charter schools. The facility problem facing charter schools became more severe when the state legislature expanded the cap on charter schools in 1998. Specifically, AB 544 increased the statewide cap on charter schools to 250 for the 1998-99 school year, and allowed the state to approve an additional 100 schools every year thereafter. Between 1993 and 2000, the number of charter schools expanded from 15 to 165 and by 2005 there were 502 charter schools operating in California. These 502 charter schools enrolled approximately 180,000 students or 3% of California’s total K-12 public school student population. As the number of charter schools increased, so did the facility problems facing those schools. According to the 2002 survey of charter schools conducted by the Rand Corporation, 62% of all charter schools surveyed stated they were struggling to finance their school facility needs.

### *The Ramifications of Proposition 39 for Charter Schools*

The facility picture for charter schools changed considerably following the passage of Proposition 39 in November of 2000. In addition to reducing the vote requirement on local G.O. bonds from two-thirds to 55%, the proposition also required that, “each school district make available, to each charter school operating in the school district, facilities sufficient for the charter school to accommodate all of the

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<sup>78</sup> Sugarman (2002), p. 6.

<sup>79</sup> EdSource (2004), p. 20.

<sup>80</sup> See Krop and Zimmer (2005) for a historical account of the number of start-up and conversion charter schools in California.

charter school's in-district students in conditions reasonably equivalent to those in which the students would be accommodated if they were attending other public schools of the district. Facilities provided shall be contiguous, furnished, and equipped, and shall remain the property of the school district.”<sup>81</sup> Prior to the passage of Proposition 39, school districts were only required to allow charter schools to use a district facility if that facility was not currently being used by the district for instructional or administration purposes or if the facility had not been historically used for rental purposes. With the passage of Proposition 39, it became the legal responsibility of school districts to make all reasonable efforts to house charter school students in facilities that were essentially equivalent to those used to house in-district students. Thus, Proposition 39 substantially increased the responsibility of school districts to provide adequate facilities for charter schools.

The charter school provisions of Proposition 39 were phased in over a three-year period. For school districts that passed a bond measure before November 8, 2003, the provisions took effect in July of the year following the passage of a bond measure. For those school districts that did not pass a bond prior to November 8, 2003, the provisions took effect on that date. Furthermore, the charter school provisions of Proposition 39 only apply to charter schools with an enrollment or projected enrollment of 80 students or more. If the actual or projected enrollment of a charter school is less than 80 students, a district can deny the facility requests of the charter school. While the provisions of Proposition 39 require school districts to provide facilities for charter schools, districts are not required to use unrestricted general fund revenues to make those facilities available. In particular, section 47614 of the California Education Codes states that, “no school district shall be required to use unrestricted general fund revenues to rent, buy, or lease facilities for charter school students.” However, if a district does choose to use unrestricted general fund revenue, the district may charge the charter school a “pro rata share” of the facility costs. The pro rata share is based on the ratio of space allocated by the school district to the charter school divided by the total space of the district. If the district uses any other source of revenue (e.g. local bonds or state aid) to finance the cost of charter school facilities, the charter school could not be charged for those costs.

While the intent of Proposition 39 was to ensure that public school facilities were shared fairly among all students, including those enrolled in charter schools, the meaning of “fair” quickly became a matter of contentious debate. The debate may have culminated when the Fifth District Court of Appeals in California ruled that, “charter school students are district students and that school district may not discriminate against charter school students when it comes to providing facilities.”<sup>82</sup> The court’s ruling stems from the case of *Ridgecrest Charter School v. Sierra Sands Unified District*. In September of 2002

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<sup>81</sup> California Education Code, Section 47614.

<sup>82</sup> California Charter School Association, July 1, 2005.



Ridgecrest Charter School filed a Proposition 39 request for district facilities within Sierra Sands Unified District. The district responded by approving a total of nine and a half class rooms located at five different schools.<sup>83</sup> The charter school rejected the district's offer, arguing that that the offer violated the provisions of Proposition 39 because it did not provide facilities that were contiguous. Ridgecrest Charter then made a counter proposal, asking the district to make available one particular site that was currently being used primarily for nonacademic purposes. The district rejected the charter schools' proposal arguing it had made every reasonable attempt to locate and make available space at the fewest number of sites.

On July 29, 2003, Ridgecrest Charter took its case to the court and filed a complaint with the Kern County Superior Court. In its complaint Ridgecrest asked the court to uphold its right under the provisions of Proposition 39 to receive facilities that were contiguous and mandate Sierra Sands Unified to provide facilities at a single site. The presiding judge in the case ruled that Sierra Sands had not abused its discretion in allocating facilities and therefore Ridgecrest Charter was not entitled to a single site to house its students. Ridgecrest appealed and the case was remanded to the Court of Appeal, Fifth District. On June 29, 2005, the Court of Appeal overturned the lower court's ruling. In its decision, the court stated that, "a school district's exercise of its discretion in responding to a Proposition 39 facilities request must comport with the evident purpose of the Act to equalize the treatment of charter and district-run schools with respect to the allocation of space between them."<sup>84</sup> The decision goes on to say that the court interprets the meaning of "reasonably equivalent" and "fairly shared" to mean that, "to the maximum extent practicable, the needs of the charter school must be given the same consideration as those of the district-run schools, subject to the requirement that the facilities provided to the charter school must be contiguous."<sup>85</sup> While the court realized that Ridgecrest's facility requests would most likely cause "considerable disruption and dislocation among the District's students, staff, and programs," it nevertheless ruled that the provisions of Proposition 39 required that districts share their facilities fairly with charter school students.

Technically, the court's decision in *Ridgecrest Charter School v. Sierra Sands Unified District* applies only to those school districts located in the Fifth Appellate district of California. However, the decision is likely to affect school districts throughout the state as charter schools become more aggressive in pursuing their Proposition 39 facility requests. For example, a survey of charter schools conducted by EdSource in early 2005 revealed that among the 135 charter schools that submitted Proposition 39 requests for facilities to their districts, 53 (or 39%) of those schools reported that they did not receive

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<sup>83</sup> *Ridgecrest Charter School v. Sierra Sands Unified School District*, 130 Cal.App.4th 986, 30 Cal.Rptr.3d 648; hereafter *RCS v. Sierra Sands Unified*.

<sup>84</sup> *RCS v. Sierra Sands Unified*, pp. 15.

<sup>85</sup> *RCS v. Sierra Sands Unified*, pp. 15.

satisfactory facilities in response to their request or through continued negotiations.<sup>86</sup> Some of those charter schools have now filed lawsuits to address their facility needs. For example, in December of 2005, two charter schools located in San Diego Unified filed a complaint with the San Diego Superior Court arguing that the district had failed to uphold the provisions of Proposition 39 to provide their students with adequate facilities. While it is still too early to fully evaluate the impact of Proposition 39 on the facility needs of charter schools, there is little question that the proposition has fundamentally altered the facility predicament faced by these schools.

### *Facility Funding for Charter Schools*

In addition to passing Proposition 39, California has also implemented several programs designed to increase funding for charter school facilities. These include the Charter School Facilities Program (CSFP), which is financed with bond revenue from Propositions 47 and 55, the Charter School Revolving Loan Fund (CSRLF), the Charter School Facility Grant Program (CSFGP), and the Charter School Facilities Incentive Grants Program (CSFIGP) which is funded primarily by the federal government. This section concludes by discussing each of these programs in turn.

Assembly Bill 14 enacted in 2002 established the Charter School Facilities Program (CSFP) as a pilot program to assist charter schools in obtaining adequate school facilities. The program allows charter schools or charter school granting authorities to apply for preliminary apportionments (reserve funds) for new school construction projects. Prior to the establishment of the CSFP, charter schools wishing to access state bond revenue for facilities projects had to petition their school districts to include them on applications for state funding. According to EdSource and the Office of Public School Construction, only five new construction projects and four modernization projects received funding prior to the establishment of the CSFP. The CSFP was originally funded with \$100 million of Proposition 47 bond revenue. With the passage of Proposition 55 in 2004, the program received an additional \$300 million in funding.

The CSFP allows districts to obtain funding for new school construction projects directly or through the school district where the charter school is located.<sup>87</sup> The program currently does not provide funding to charter schools for modernization projects nor does it provide funding to schools offering non-classroom based instruction.<sup>88</sup> To be eligible for funding, a charter school must demonstrate that the district in which it is physically located is eligible for new school construction. Recall that under the

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<sup>86</sup> EdSource surveyed the universe of charter schools operating in California as of the 2004-05 year. 92% of all charter schools responded to the survey.

<sup>87</sup> State Allocation Board and the California School Finance Authority, "Charter School Facility Funding: Joint Report to the Legislature," July 2005.

<sup>88</sup> If approved by voters this November, Proposition 1D would expand Charter School Facilities Program to include modernization funding.

School Facility Program this amounts to providing evidence that existing seating capacity is insufficient to house existing students or anticipated students using a five-year projection of enrollment.<sup>89</sup> Similar to other programs funded through the School Facility Program, state aid is provided on a 50/50 state and local matching basis. Thus, charter schools wishing to access funds in the CSFP must provide 50% of a project's cost. Charter schools have the option of meeting the 50% match either as a lump sum or by entering into lease agreement with the state for a period of up to 30 years. To qualify for funding, a charter school must demonstrate to the California School Finance Authority that it is financially sound and is capable of meeting the required 50% local matching contribution.

Similar to the Critically Overcrowded School Program, the CSFP allows charter schools to receive preliminary apportionments for new school construction projects. A preliminary apportionment is essentially a reservation of funds which provides a charter school with more time to find an appropriate location for a new school construction project and to obtain the necessary approvals from the California Department of Education and the Division of the State Architecture. Charter schools have up to four years to convert their preliminary apportionments into a final apportionment.

In the original round of funding, which consisted of \$100 million in Proposition 47 bond revenue, the Office of Public School Construction received 17 applications that were eligible for funding. Given the limited funding available, only six of those projects were able to be funded. As a result of this shortfall in funding, the state legislature enacted SB 15 in 2003. The new legislation revised the CSFP regulations to include caps on charter school project funding. Specifically, the new legislation limited the number of per pupil grants that could be requested, the maximum acreage allowed for site acquisition, and total project costs. Because of these caps, in the second round of funding the State Allocation Board was able to fund 28 out of 34 eligible projects.<sup>90</sup> Table 19 lists the CSFP per-pupil grant amounts and the caps on funding. When the number of eligible project applications exceeds the total amount of funding available in the CSFP, preliminary apportionments are rationed so that they are representative of: (1) various geographical areas in the state, (2) various grade levels served by charter schools, (3) urban, rural and suburban areas of the state, and (4) large, medium and small charter schools. Within each of those areas, preference is given to charter schools located in districts with large percentages of students eligible for free or reduced price lunch, those located in districts with overcrowded schools, and nonprofit charters.

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<sup>89</sup> If the district where the charter school is, or will be, located has not established new construction eligibility, the charter school must submit the appropriate documentation establishing eligibility at the time it submits its application for a principle apportionment to the OPSC.

<sup>90</sup> State Allocation Board and the California School Finance Authority, "Charter School Facility Funding: Joint Report to the Legislature," July 2005.

In addition to the CSFP, the State also administers a number of loan and grant programs designed to assist charter schools in obtaining adequate facilities. The first such program was established in 1996 when the state legislature created the Charter School Revolving Loan Fund (CSRLF). The program provides low-interest loans of up to \$250,000 for non-conversion charter schools.<sup>91</sup> Schools can receive more than one loan as long as the total amount received does not exceed \$250,000 over the lifetime of the charter school but any given loan must be repaid within five years. Charter schools that are incorporated may borrow directly from the CSRLF, all other charter schools must request a loan through their charter-granting authority. Charter schools can use the proceeds of a loan to help meet any of the objectives outlined in their charter, including the leasing of facilities and the costs of facility improvements.

In 2001, the state legislature created the Charter School Facility Grant Program (CSFGP) to provide charter schools with assistance for facilities rent and leasing costs. To be eligible for a grant, 70% of the students enrolled in a charter must be eligible for free or reduced price meals or the charter school must be located in district where at least 70% of all students are eligible for free or reduced price meals. In addition, conversion charter schools and those that have received reasonably equivalent facilities through a Proposition 39 request are not eligible for a grant. The program allows districts to receive a reimbursement of up to \$750 per pupil for rental and leasing expenditures but no more than 75% of the charter school's total annual rental and leasing cost. Since the program's inception in 2001, the state legislature has appropriated \$22.2 million for the program.

Finally, the Charter School Facilities Incentive Grants Program (CSFIGP) is also designed to provide charter schools with assistance for facility costs. The CSFIGP was implemented in 2005 shortly after the California School Finance Authority (CSFA) was awarded a grant of \$49.25 million from the U.S. Department of Education to assist charter schools in obtaining the adequate school facilities. The proceeds of the grant are to be allocated over a five year period. Grant awards can be used to cover a charter school's rent, lease, mortgage or debt service costs, or for the costs associated with the purchase, design and construction of facilities.<sup>92</sup> Similar to the Charter School Facility Grant Program, the CSFIGP allows districts to receive a reimbursement of up to \$750 per pupil for rental and leasing expenditures but no more than 75% of the charter school's total annual rental and leasing cost. Furthermore, no grant may exceed \$250,000 per year, with a maximum grant period of three years. The CSFIGP also provides per-pupil grants for the construction and renovation of school facilities. Charter schools are awarded \$1,000 per pupil to cover up to 75% of the annual costs of eligible construction projects. Individual project

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<sup>91</sup> The discussion in the text describes the CSRLF program as amended in 2000. Under the original legislation the maximum grant available was \$50,000. Furthermore the proceeds of the loan had to be used within the first year of operation and repaid within two years.

<sup>92</sup> California School Finance Authority, Text of Regulations, Charter School Facilities Program – Implementation of State Charter School Facilities Incentive Grant Program. Full text is available at: [http://www.treasurer.ca.gov/csfa/charter/2005/pgm\\_regulations.pdf](http://www.treasurer.ca.gov/csfa/charter/2005/pgm_regulations.pdf).

grants are limited to a maximum of \$500,000 per year, with a maximum grant period of three years. To qualify for a grant, a charter school must be in good standing with its chartering authority and have completed at least one year of instructional activity.<sup>93</sup> Funding priority for CSFIGP grants is based on a preference point system. Specifically, charter schools receive preference points based on: (1) the percentage of free or reduced price students attending a school (maximum of 40 points), (2) location in an overcrowded school district (maximum 40 points),<sup>94</sup> and (3) whether the school is a nonprofit entity (20 points).

## **9. Discussion**

Sections 2 through 8 of this report documented various aspects of school facility funding in California and examined how revenue for new school construction and modernization projects is distributed across school districts. This final section provides a review of some of the major findings in each section and links those findings to research reports that have recommended various changes to the current system of school facility finance in California.

### *A Predictable and Consistent Method of Financing School Facilities*

Sections 2 and 3 documented the history of school facility finance in California and examined how the level of school facility funding has changed over time. Those sections revealed that California's system of school facility finance has changed frequently and that facility spending has fluctuated quite dramatically over time. While several factors are responsible for the dramatic fluctuations in facility spending, one factor stands out; namely, the irregular nature of statewide school facility bond issues. Several recent reports have suggested the state develop a more consistent and predictable method of financing school facilities. For example, in her 2001 report entitled, "A New Blueprint for California School Facility Finance," Legislative Analyst, Elizabeth Hill, notes:

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.<sup>95</sup>

Similarly, in its 2002 report, the Joint Legislative Committee to Develop a Master Plan for Education notes:

... there is no doubt that the current model of funding for public school facilities in California is unresponsive to the planning and funding needs of school districts, and, therefore, results in the

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<sup>93</sup> In addition, charter schools receiving funding through the Charter School Facility Program are ineligible for grants.

<sup>94</sup> The preference points are based on the percentage overcrowded, which is calculated by dividing the number of unhouseed students in a district by the district's current enrollment.

<sup>95</sup> Legislative Analyst's Office (2001), p. 4.

inefficient use of resources for facilities. In particular, reliance on state General Obligation bonds and the current method of allocating bond proceeds has created a system that has not been conducive to long-term planning for school facility needs at the local level, and that fails to ‘leverage’ or encourage the development of local sources of funding for school capital outlay needs.<sup>96</sup>

Reports issued by Cohen (1999), PolciyLink and MALDEF (2005), the Little Hoover Commission (2000), and the California Performance Review Commission (2004) all reach a similar conclusion.

Each of the reports mentioned above provides a slightly different recommendation on how to address the issue but all suggest that the state develop a more predictable and consistent method of financing school facilities. For example, both the LAO report and the Master Plan for Education report call for replacing the current system with a new system that would provide school districts with annual per-pupil allocations from the state General Fund to finance school facility needs.

The irregular nature of statewide school facility bond issues and the “hills and valleys” of revenue availability may also be partly responsible for some of the recent increases in school construction costs. In particular, because statewide bond issues occur infrequently and tend to be quite large when they do occur, school construction costs may rise following a bond issue. In essence, funding school construction with infrequent and large G.O. bond issues causes the demand curve for school construction to shift right following a statewide bond issue. If the supply of school construction is fixed or relatively inelastic, this would lead to a relatively large increase in construction costs due to increased demand. While there are no research reports that document a significant link between construction costs and the passage of statewide bond issues, there is plenty of anecdotal evidence that suggests construction costs have risen significantly since the passage of Proposition 1A and Propositions 47 and 55. Thus, moving towards a more predictable and consistent method of funding school facilities may also have the (positive) unintended consequence of reducing construction costs.

#### *Unifying State Oversight of School Facility Projects*

Section 4 of this report provided an overview of the School Facility Program which was established in 1998 following the passage of AB 50. As noted in that section, the SFP was designed to stream-line the application process and simplify the overall structure of the state’s school facilities program. Several reports, including Cohen (1999) and the Little Hoover Commission (2000), suggest that the state has made significant progress in streamlining the regulatory process and improving the transparency and efficiency of the state’s school facility program. Nevertheless, these reports have called for streamlining the state’s school facility approval process even further. For example, in its 2004 report, the California Performance Commission notes:

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<sup>96</sup>Joint Legislative Committee to Develop a Master Plan for Education (2002), p. 172.

The state's multi-billion dollar investment in local school buildings involves a cumbersome, duplicative and time-consuming multi-agency approval process that fails to review important elements of the projects. The state needs a facility approval process that ensures the safety and financial security of school sites and construction, without delaying or adding cost to a project.<sup>97</sup>

Reports issued by the Little Hoover Commission (2000) and the Pacific Research Institute (2004) come to similar conclusions.

The concerns raised in these reports revolve around the fact that school districts must interact with multiple state agencies when seeking approval for new school construction and modernization projects. For example, as noted in section 4, in order to obtain funding for facilities projects, school districts must obtain approval from a minimum of six state agencies. In addition, the Department of General Services' website notes that, "seven other State agencies operate approximately 40 programs that also may become involved under certain conditions. The number of entities involved can make the process of building or remodeling a school extremely complex and time-consuming." Based on these facts, the Little Hoover Commission (2000) and the California Performance Committee (2004) have called for unifying state oversight of school facility projects. Both reports call for creating a single state agency (or the functional equivalent thereof) that would serve as the point of contact for school districts.

#### *Equalizing the Ability of School Districts to Raise General Obligation Bond Revenue*

Sections 5 and 6 documented the size and distribution of school facility revenue between 1998 and the present. Those sections revealed that funding for school facility projects varies widely across districts. Some of the variation can be explained by differences across districts in need. For example, districts with higher enrollment growth and those that have not invested heavily in school infrastructure in the recent past, tend to have significantly higher levels of facility funding. However, section 6 also highlighted the fact that facility funding tends to vary systematically with district property wealth. In particular, districts with higher assessed value per pupil tend to have significantly higher local bond revenue per pupil and consequently higher total revenue per pupil.

The relationship between assessed value and the ability of school districts to raise general obligation bond revenue was the primary focus of a 1986 report on school facilities prepared by the Legislative Analyst's Office. The report, which was written just prior to the passage of Proposition 46, highlighted a potential problem with the state legislature's 1986 proposal to reinstate the authority of local school district to raise local bond revenue. Specifically, the report notes:

One potential drawback of this proposal, however, is that it could violate the principles on which the Supreme Court's decision in the *Serrano v. Priest* case was based. This is a legitimate

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<sup>97</sup> California Performance Review (2004), Vol. 4, p. 899.

concern. School districts with considerable property tax wealth could raise large amounts for school facilities by imposing a very low tax rate, while school districts with less property tax wealth would not be able to raise sufficient funds even with a very high tax rate.

In *Serrano v. Priest*, the California Supreme Court ruled that differences across district in spending per pupil could not be significantly related to differences in property wealth. Although, the issue at hand in that case was the relationship between *current* spending and property wealth, it seems apparent that the LAO was concerned that a similar argument could be made for the relationship between *capital* (infrastructure) spending and property wealth. To illustrate the LAO's point, consider two unified districts, one with an assessed value per pupil of \$191,000 (approximately the 10<sup>th</sup> percentile of assessed value per pupil among unified districts in 2005), and the other with an assessed value per pupil of \$1,204,000 (approximately the 90<sup>th</sup> percentile of assessed value). If both districts impose a tax rate of 0.06% (the maximum allowed), the first district would raise \$115 per pupil in local bond revenue while the second district would raise \$722.<sup>98</sup> Thus, even though the two districts impose the same tax rates, the second district can raise nearly seven times more revenue.

In its 1986 report, the LAO suggested the state implement a guaranteed tax yield system to address such differences in the ability of local districts to raise revenue through local general obligation bond issues. As noted by de Alth and Rueben (2005), under such a system, the state would guarantee that any given tax rate provided all districts with the same amount of revenue. Specifically, the state would provide a schedule listing a guaranteed yield per pupil from any given tax rate. State aid would then be used to "top off" the revenue raised by low-wealth districts from a given tax rate. Thus, the system would be based on variable state matching rates with low-wealth districts receiving higher levels of state aid than high-wealth districts. A similar type of program was suggested by the LAO in its 2001 report on school facility finance.<sup>99</sup>

### *Expanding the Definition of Critically Overcrowded Schools*

Section 7 examined how the characteristics of critically overcrowded and multi-track schools differed from other schools. It also examined how school facility funding in districts that contain critically overcrowded and multi-track schools compares to other districts. The section illustrated that critically overcrowded and multi-track schools tend to enroll significantly higher proportions of

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<sup>98</sup> Under the guidelines set forth by Proposition 39, unified districts are prohibited from proposing, on any single ballot, a tax increase of more than \$60 per \$100,000 of assessed valuation, implying a tax rate of 0.06%.

<sup>99</sup> In its 2001 report, the LAO suggested an "ability-to-pay" adjustment program. Under such a system, the state would target revenue to districts with the least ability to raise revenue through local general obligation bonds and developer fees. Specifically, the state would fund the difference between some set standard of revenue per pupil and the amount of revenue a district could raise by imposing the maximum allowable tax rate and collecting developer fees at the maximum rate allowed by law.



disadvantaged and minority students. It also showed that districts that contain critically overcrowded schools tend to receive substantially higher facility funding, particularly Los Angeles Unified. In its 2005 report on ending overcrowding in California's public schools, PolicyLink and MALDEF note that the Critically Overcrowded Schools (COS) Program, which was implemented in 2002, has made progress in addressing the problem of overcrowding. Nevertheless, the report also outlines some potential concerns with the COS program. Specifically, the report notes that the standard used by the CDE to define critically overcrowded schools is quite high: a school must have a student density that is at least 200% of the CDE's recommended density. Furthermore, the report goes on to note:

... while density is considered a good measure of overcrowding, using density alone is inadequate in describing the full extent of the problem. California schools that use temporary approaches to increase school capacity, such as multi-track year-round education calendars, busing, and portable classrooms—practices that are strong indicators of school overcrowding—are not fully captured under the state definition. Portable classrooms are usually counted as permanent classroom space, bused students are not counted in the schools they should attend but are unable to because there is no room for them, and the presence of multitrack year-round calendars is not seen as an indication of overcrowding. The COS program should strive to broaden its definition and capture the schools that use such strategies.<sup>100</sup>

Recently, the state legislature has taken action to address some of the concerns raised by PolicyLink and MALDEF. In particular, AB 127, the Kindergarten-University Public Education Facilities Bond Act of 2006, contains \$1 billion in funding for Overcrowding Relief Grants. The grants would enable districts to reduce the number of portable classrooms on overcrowded school sites and replace them with permanent classrooms.<sup>101</sup> To be eligible for a grant, a school district must contain schools with a student density that is 175% or more of the CDE's recommended density. The Act allows districts to exclude portable classrooms from the count of existing capacity for the purpose of establishing eligibility for new school construction.<sup>102</sup> Thus, the Act addresses (at least to some degree) two of the concerns raised by PolicyLink and MALDEF: it reduces the density threshold for participating in the program from 200% of the CDE standard to 175% of that standard and it excludes portable classrooms from a district's calculation of existing capacity. According to the Legislative Analyst's Office, under the definition of overcrowding used by the Overcrowding Relief Grants program, approximately 1,800 schools (20 percent of all schools) would be eligible for funding.<sup>103</sup>

While AB 127 addresses some of the concerns raised by PolicyLink and MALDEF, it does not address their concerns regarding schools that utilize multi-track year-round schooling or busing to relieve

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<sup>100</sup> PolicyLink and MALDEF (2005), p. 6.

<sup>101</sup> State Allocation Board, Implementation Committee Meeting, July 21, 2006.

<sup>102</sup> Portable class rooms used for the Class Size Reduction Program may not be excluded from the calculation of existing capacity.

<sup>103</sup> Legislative Analyst's Office (July 2006), p. 3.

severe overcrowding. An older version of AB 127, namely AB 58, did contain language that would have allowed school districts access to state funds to “provide permanent school facilities for pupils in multi-track year round programs or pupils on double-session.”<sup>104</sup> However, the provision was eliminated from the final version of AB 127.<sup>105</sup> Other recent legislation has taken action to eliminate the most extreme form of multi-track year-round schooling, commonly known as Concept 6. Relative to other multi-track year round programs, the Concept 6 program provides the maximum enrollment given a school’s capacity and has the potential to increase the seating capacity of a school by 50%.<sup>106</sup> However, this increased capacity comes at a cost. Students that attend schools operating on a Concept 6 calendar receive only 163 days of instruction. Students attending schools that operate on a traditional calendar or any other multi-track year round calendar receive 180 days of instruction. As of 2004-05, 152 schools were operating on a Concept 6 year-round calendar and of those 128, or 84%, were located in Los Angeles Unified.<sup>107</sup> AB 1550, enacted in 2004 prohibits a school district from operating a Concept 6 program unless the district operated such a program continuously since the 2003-04. The bill also prohibits the operation of a Concept 6 program after July 1, 2012.

#### *Adapting to Changing Enrollment Trends*

The annual growth rate of student enrollment in California has been steadily declining since the mid-1990’s and is projected to continue declining until about 2009 or 2010. Furthermore, according to projections made by the California Department of Finance, between 2005-06 and 2014-15 total student enrollment in California is predicted to increase by only 191,042 students or approximately 3%. In light of this trend of slowing enrollment growth, the Legislative Analyst’s Office has suggested the state allocate a larger fraction of any future statewide bond issues towards modernization of existing school facilities and a smaller fraction towards new school construction.<sup>108</sup> Proposed funding for the Kindergarten-University Public Education Facilities Bond Act of 2006 is consistent with the LAO’s recommendation. In particular, if approved by voters this November, the Act would provide \$3.3 billion for modernization projects versus \$1.9 billion for new school construction projects. In contrast, bond revenue from Propositions 47 and 55 provided 3.7 billion for modernization projects and \$8.8 billion for new school construction.

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<sup>104</sup> Assembly Bill 58, Amended in Assembly January 4, 2006. Full text available at: [http://info.sen.ca.gov/pub/bill/asm/ab\\_0051-0100/ab\\_58\\_bill\\_20060104\\_amended\\_asm.pdf](http://info.sen.ca.gov/pub/bill/asm/ab_0051-0100/ab_58_bill_20060104_amended_asm.pdf)

<sup>105</sup> In 2002, the state legislature also considered making funding for districts that utilized multi-track year-round schooling programs a priority for the Critically Overcrowded Schools program. See Coalition for Adequate School Housing New Archives, February 15, 2002.

<sup>106</sup> Oakes (2002), p. 6.

<sup>107</sup> In 2004-05, approximately 4% of all students were enrolled in a school operating on a Concept 6 year-round calendar. Source: California Department of Education list of schools operating on a multi-track year-round calendar.

<sup>108</sup> Legislative Analyst’s Office (February 2006).

### *Creation of a Statewide School Facility Inventory System*

Finally, sections 5, 6, and 7 of this report alluded to an important problem facing California's system of school facility finance: the state lacks a coherent definition of what it means for a school to have adequate facilities and it lacks a statewide school facility inventory system. As Pastor and Reed (2005) note:

Perhaps the most fundamental barrier to an equitable distribution of school bond funds is the lack of a comprehensive school facilities assessment. The state simply does not have the information to compare schools and identify the greatest facility needs.

Reports issued by the Little Hoover Commission (2000), the Joint Legislative Committee to Develop a Master Plan for Education (2002), the Legislative Analyst's Office (2001), and PolicyLink and MALDEF (2005) echo a similar concern.

Although the state currently lacks a comprehensive school facilities assessment, it is making progress towards resolving this issue. As part of the Williams settlement, the state has begun work on implementing a school facilities needs assessment program. Specifically, beginning in 2005-06, SB 550 requires school districts that participate in the SFP and the Deferred Maintenance Program to establish a Facilities Inspection System (FIS) and to ensure that all schools within the district are in "good repair" (i.e. clean, safe and functional).<sup>109</sup> SB 550 also charged the Office of Public School Construction with developing an evaluation instrument that could be used by school districts to identify if a school facility is in good repair. This instrument is to be used by school districts on an interim basis until the state legislature adopts a permanent standard for good repair. Those statewide standards must be adopted by the legislature and governor no later than September 1, 2006. Although, the final form of these statewide standards has not been fully established, the Office of Public School Construction made the following suggestion in March of 2006:

... the State standard for good repair should be described in statute in narrative form, of moderate detail, and be composed of the assessment of more than a dozen school components. Statute should also require that an evaluation tool be developed and maintained by the OPSC or another State agency and it should be designed to accommodate a rating and scoring system.<sup>110</sup>

While it is too early to tell how the implementation of a state standard for good repair will affect school facility finance in California, it nevertheless represents a significant step forward.

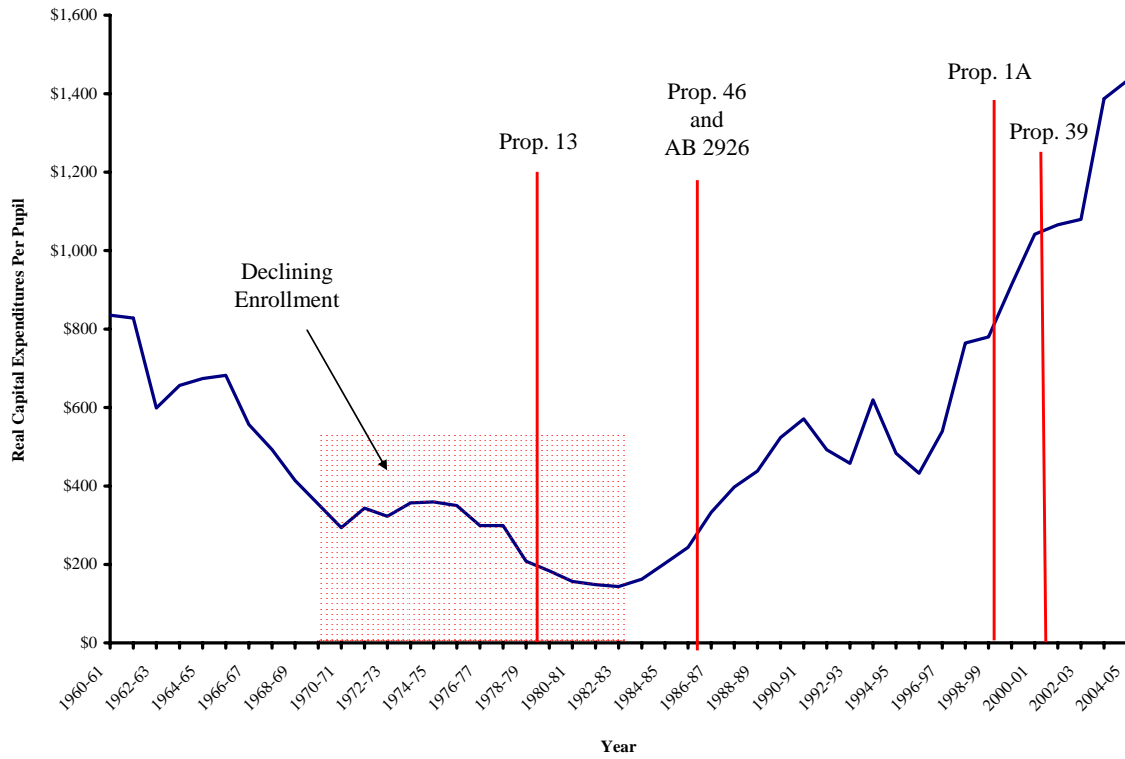
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<sup>109</sup> According to the Office of Public School Construction, nearly 89% of school districts participate in the SFP or Deferred Maintenance Program. Thus, the vast majority of California's school districts will be required to implement a Facilities Inspection System.

<sup>110</sup> Office of Public School Construction (2006), p. 1.

## Tables and Figures

**Figure 1**  
**California per Pupil School Infrastructure Spending, 1960-2005**



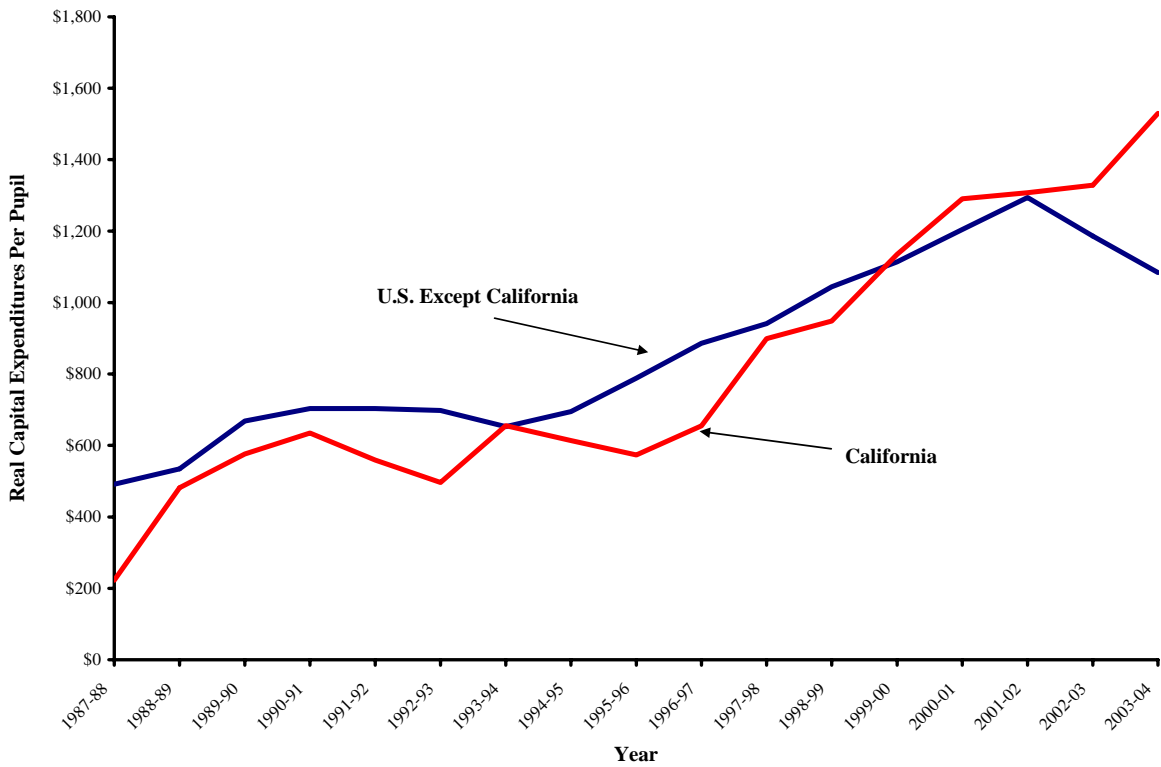
**Table 1**  
**State K-12 Education General Obligation Bonds, 1949-2005**  
(\$ millions)

Years	No. proposed	No. passed	Amount proposed	Amount passed	Real amount passed (2005 \$)
1949-60	5	5	1,055	1,055	5,977
1961-70	3	3	735	735	3,772
1971-80	4	2	1,050	500	1,829
1981-85	2	2	950	950	1,571
1986-90	5	5	4,000	4,000	5,885
1991-95	3	2	3,800	2,800	3,662
1996-00	2	2	8,725	8,725	10,204
2001-05	2	2	21,400	21,400	23,316
<b>Total</b>	<b>26</b>	<b>23</b>	<b>\$41,715</b>	<b>\$40,165</b>	<b>\$56,215</b>

**Table 2**  
**Local K-12 Education General Obligation Bonds, 1986-2005**  
(\$ millions)

Years	No. proposed	No. passed	Amount proposed	Amount passed	Real amount passed (2005 \$)
1986-90	124	65	2,730	1,334	1,944
1991-95	292	128	8,499	3,603	4,613
1996-00	444	282	23,039	14,127	16,441
2001-05	355	285	28,621	26,091	28,058
<b>Total</b>	<b>1,215</b>	<b>760</b>	<b>\$62,889</b>	<b>\$45,155</b>	<b>\$51,056</b>

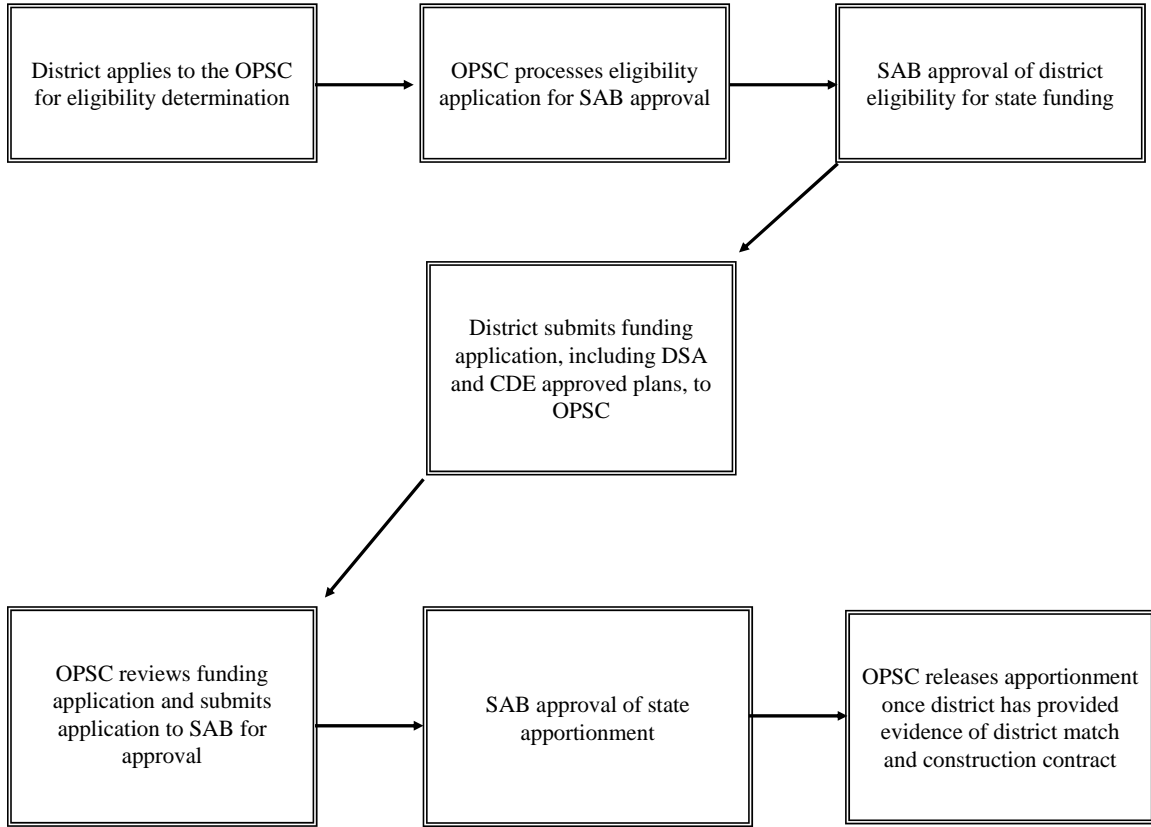
**Figure 2**  
**Facility Spending per Pupil: CA versus the U.S, 1988-2004**



**Table 3**  
**State Comparisons of Facility Spending per Pupil, 1988-2004**

Period	U.S. Except CA	CA	CO	FL	NJ	TX	WA
1988-92	\$620	\$495	\$698	\$1,076	\$520	\$596	\$1,267
1993-96	\$708	\$585	\$886	\$1,114	\$744	\$833	\$1,196
1997-00	\$996	\$909	\$1,166	\$1,148	\$1,058	\$1,168	\$1,199
2001-04	\$1,192	\$1,364	\$1,193	\$1,371	\$1,354	\$1,348	\$1,253
1988-04	\$864	\$818	\$969	\$1,172	\$895	\$963	\$1,231
Enrollment Growth 1988-04	18.6%	42.9%	35.2%	55.4%	26.3%	33.8%	31.7%

**Figure 3**  
**New School Construction and Modernization Funding Process**



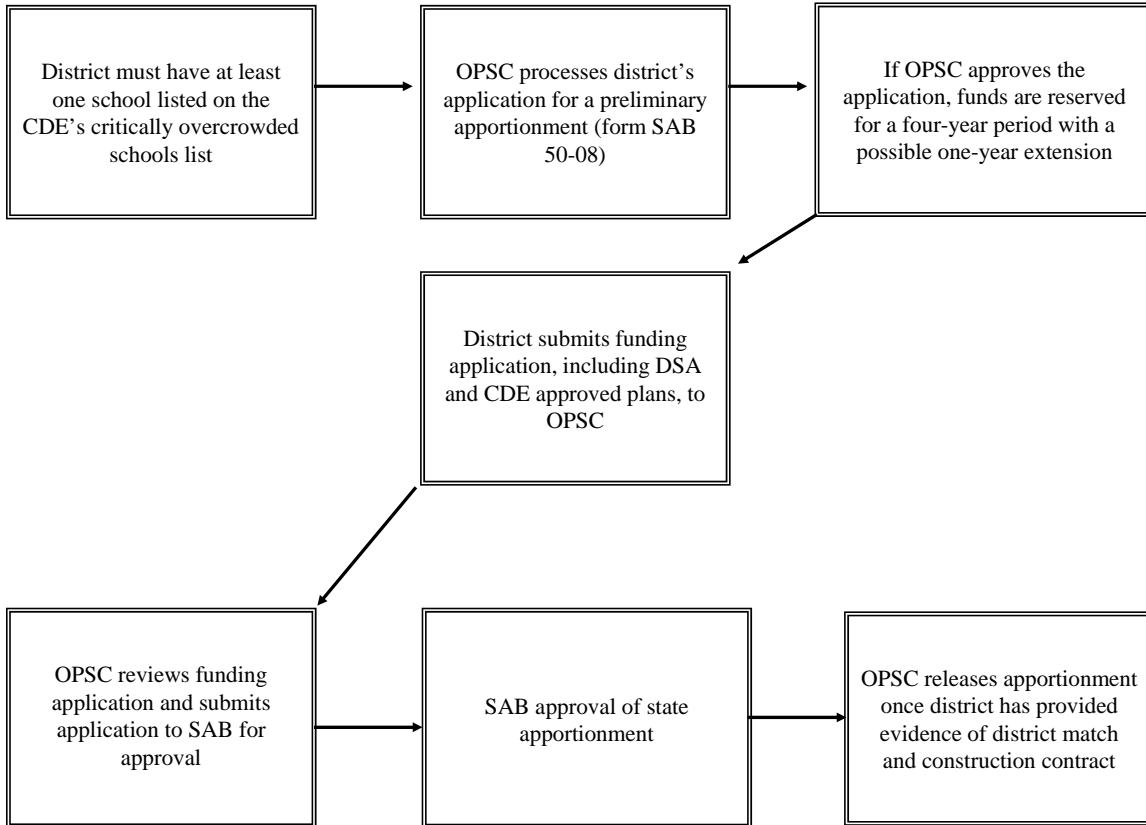
**Table 4**  
**New School Construction Grant Amounts**

Type of Student	Per-Pupil Grant Amount
Elementary	\$7,082
Middle School	\$7,490
High School	\$9,805
Special Day Class – Non-Severe	\$15,096
Special Day Class – Severe	\$22,572

**Table 5  
Modernization Grant Amounts**

Type of Student	Buildings 25 years old or older but less than 50 years old.	Buildings 50 years old or older.
Elementary	\$3,059	\$4,249
Middle School	\$3,236	\$4,494
High School	\$4,236	\$5,884
Special Day Class – Non-Severe	\$6,521	\$9,056
Special Day Class – Severe	\$9,746	\$13,543

**Figure 4  
COS Program Funding Process**





**Table 6**  
**Sources of Revenue for School Construction and Modernization, 1998 – Present**

Source	Total Revenue (\$ Billion)	Percentage
Local G.O. Bonds	38.4	53
State Aid (State Bond Apportionments)	21.9	31
Developer Fees	6.23	9
Mello-Roos and SFID's	0.71	1
Other	3.99	6
<b>Total</b>	<b>71.22</b>	<b>100</b>

**Table 7**  
**Revenue per Pupil by Source, 1998 – Present**

Revenue Source	Unified Districts	Elementary Districts	High School Districts
Local G.O. Bonds	\$4,051	\$3,293	\$6,951
State Aid	3,496	3,429	4,735
Developer Fees	1,175	1,077	1,408
<b>Total</b>	<b>9,658</b>	<b>8,246</b>	<b>13,817</b>
Districts	331	548	83
Average Enrollment	12,896	2,127	6,273

**Table 8**  
**Distribution of Revenue per Pupil, 1998 – Present**

Revenue Source	Percentiles*				
	10	25	50	75	90
<b>Unified Districts</b>					
Local G.O. Bonds	0	1,639	4,979	12,200	16,883
Local G.O. Bonds + State Aid	3,012	5,791	8,475	16,202	19,743
Total	4,274	7,580	10,283	18,211	20,270
<b>Elementary Districts</b>					
Local G.O. Bonds	0	0	1,487	4,874	7,786
Local G.O. Bonds + State Aid	663	1,913	5,752	8,806	11,643
Total	1,278	3,193	7,223	11,045	15,263
<b>High School Districts</b>					
Local G.O. Bonds	0	5,171	7,666	11,154	17,960
Local G.O. Bonds + State Aid	4,585	8,228	12,790	17,345	22,075
Total	6,637	10,987	14,877	22,033	26,567

\* Percentiles are weighted by district enrollment.

**Table 9**  
**Distribution of Revenue per Pupil by Quintiles of Enrollment Growth\***

Revenue Source	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
<b>Unified Districts</b>	Less than 0.8%	0.8% - 8.0%	8.1% - 9.3%	9.4% - 18.0%	Greater than 18.0%
Local G.O. Bonds	4,032	3,890	4,770	4,109	4,098
State G.O. Bonds	2,425	2,625	2,842	4,021	6,559
Total	7,960	8,319	9,031	10,143	14,725
<b>Elementary Districts</b>	Less than -4.0%	-4.0% - 3.6%	3.7% - 10.4%	10.5% - 21.0%	Greater than 21.0%
Local G.O. Bonds	2,715	4,897	4,956	2,226	2,534
State G.O. Bonds	2,512	2,518	3,160	4,638	5,660
Total	6,304	8,612	9,493	8,235	10,925
<b>High School Districts</b>	Less than 9.7%	9.7% - 17.4%	17.5% - 24.0%	24.1% - 33.7%	Greater than 33.7%
Local G.O. Bonds	4,384	8,445	8,749	7,828	8,642
State G.O. Bonds	3,937	4,402	4,709	5,114	7,980
Total	10,210	14,285	16,030	14,484	20,836

\* Quintiles are weighted by student enrollment

**Table 10**  
**Distribution of Revenue per Pupil by Quintiles of Previous Facilities Investment\***

Revenue Source	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
<b>Unified Districts</b>	Less than \$5,500	5,500 - 6,000	6,001 - 6,800	6,801 - 9,260	Greater than 9,260
Local G.O. Bonds	4,277	4,132	4,846	2,966	4,241
State G.O. Bonds	3,253	3,719	3,302	3,687	3,740
Total	9,087	9,346	10,266	8,980	10,853
<b>Elementary Districts</b>	Less than \$5,000	5,000 - 6,390	6,391 - 7,816	7,817 - 10,030	Greater than 10,030
Local G.O. Bonds	4,656	3,638	3,369	2,211	2,467
State G.O. Bonds	4,143	3,496	2,983	4,113	2,294
Total	9,941	8,359	7,529	8,108	6,579
<b>High School Districts</b>	Less than \$5,950	5,950 - 7,730	7,731 - 9,440	9,441 - 11,730	Greater than 11,730
Local G.O. Bonds	11,565	9,147	7,016	3,957	3,869
State G.O. Bonds	6,203	4,243	4,541	4,707	4,133
Total	19,575	14,994	13,261	11,559	10,702

\* Quintiles are weighted by student enrollment

**Table 11**  
**Distribution of Revenue per Pupil by Quintiles of Median Household Income \***

Revenue Source	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
<b>Unified Districts</b>	Less than \$36,640	36,640 - 40,415	40,416 - 47,395	47,396 - 57,390	Greater than 57,390
Local G.O. Bonds	2,816	3,289	4,402	3,670	6,300
State G.O. Bonds	2,553	3,944	4,133	3,589	4,009
Total	6,481	9,241	11,685	9,628	12,681
<b>Elementary Districts</b>	Less than \$34,700	34,700 - 42,080	42,081 - 48,560	48,561 - 65,700	Greater than 65,700
Local G.O. Bonds	1,772	2,188	1,422	3,418	9,685
State G.O. Bonds	3,660	2,750	3,681	2,975	3,963
Total	6,206	6,259	6,589	7,992	16,374
<b>High School Districts</b>	Less than \$36,000	36,000 - 43,780	43,781 - 50,266	43,782- 67,400	Greater than 67,400
Local G.O. Bonds	4,036	4,933	7,205	8,504	17,102
State G.O. Bonds	4,323	5,813	3,344	4,455	5,520
Total	10,196	13,136	12,366	16,135	24,186

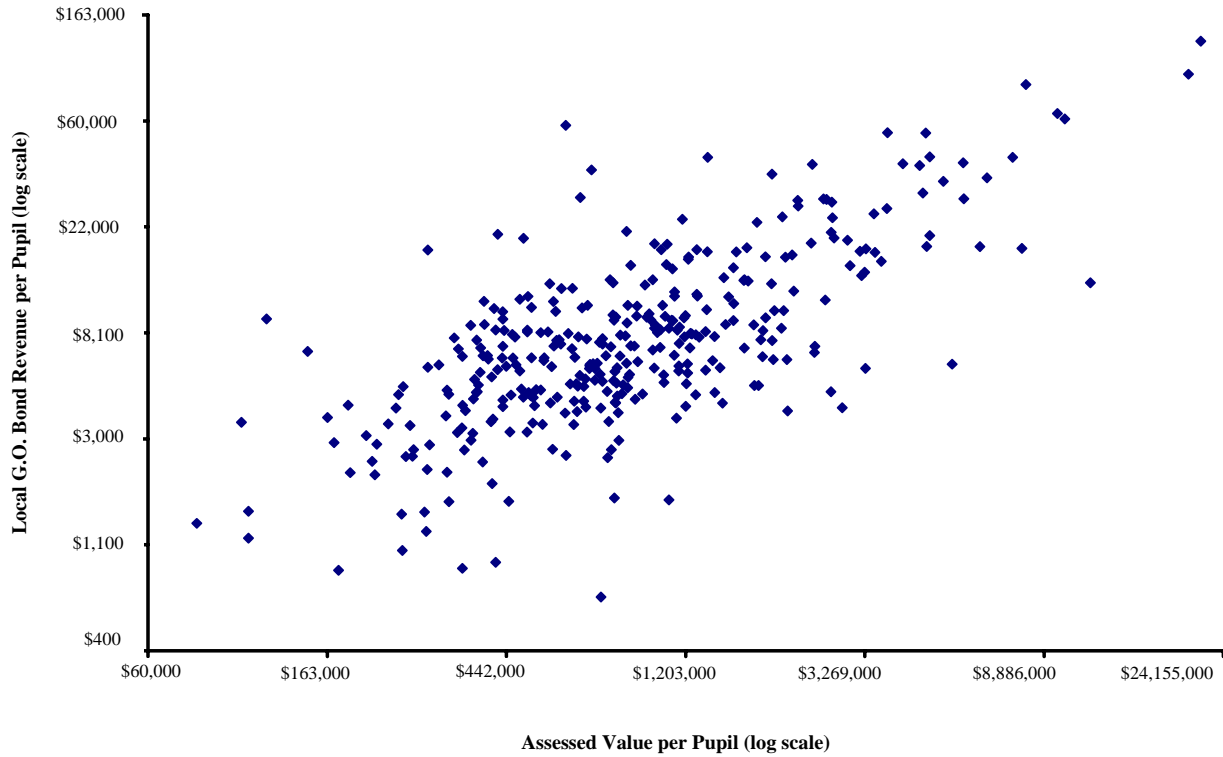
\* Quintiles are weighted by student enrollment

**Table 12**  
**Distribution of Revenue per Pupil by Quintiles of Assessed Value per Pupil \***

Revenue Source	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
<b>Unified Districts</b>	Less than \$367	367.1 - 467.9	468 - 508	508.1 - 800	Greater than 800
Local G.O. Bonds	2,053	3,304	4,960	4,155	6,535
State G.O. Bonds	3,438	3,976	3,403	3,634	3,636
Total	6,889	9,200	10,277	9,702	13,507
<b>Elementary Districts</b>	Less than \$330	330 - 518	518.1 - 685	685.1 - 1,140	Greater than 1,140
Local G.O. Bonds	757	1,443	1,727	1,449	8,524
State G.O. Bonds	3,766	3,722	4,153	2,967	2,885
Total	5,219	6,009	6,954	5,852	13,602
<b>High School Districts</b>	Less than \$910	910 - 1,115	1,115.1 - 1,380	1,380.1 - 2,200	Greater than 2,200
Local G.O. Bonds	4,333	5,826	6,599	6,072	13,416
State G.O. Bonds	5,481	4,803	4,324	5,164	4,297
Total	11,983	12,172	13,166	13,059	20,156

\* (1) Quintiles are weighted by student enrollment, (2) Assessed Value per Pupil is in 1,000 of dollars

**Figure 5**  
**Assessed Value per Pupil (2005) and Local G.O. Bond Revenue per Pupil**



**Table 13**  
**Distribution of Revenue per Pupil by Quintiles of Percentage of Minority Students \***

Revenue Source	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
<b>Unified Districts</b>	Less than 45.0%	45.0% - 68.4%	68.5% - 83.4%	83.5% - 91.0%	Greater than 91.0%
Local G.O. Bonds	4,166	4,110	3,666	4,644	3,637
State G.O. Bonds	3,154	3,871	3,406	4,122	3,768
Total	9,556	10,364	9,469	9,944	8,821
<b>Elementary Districts</b>	Less than 38.0%	38.0% - 61.2%	61.3% - 77.5%	77.6% - 91.5%	Greater than 91.5%
Local G.O. Bonds	3,795	2,400	2,586	4,436	2,425
State G.O. Bonds	3,556	3,471	2,995	3,201	3,031
Total	8,791	7,840	6,918	9,001	6,215
<b>High School Districts</b>	Less than 44.0%	44.0% - 62.2%	62.3% - 71.0%	71.1% - 85.3%	Greater than 85.3%
Local G.O. Bonds	5,799	9,771	8,862	5,639	6,865
State G.O. Bonds	4,881	4,358	5,756	3,934	5,027
Total	12,836	16,483	18,480	10,935	12,987

\* Quintiles are weighted by student enrollment

**Table 14**  
**Regression Estimates**  
**Coefficient/(Standard Error)**

Variable	Total Revenue per Pupil	Bond Revenue per Pupil	Probability of a Successful Bond Election
Assessed Value per Pupil	0.56** (0.13)	0.77** (0.06)	0.62** (0.14)
Income	0.27 (0.24)	0.20* (0.11)	-0.21 (0.29)
Enrollment Growth	0.76** (0.19)	0.17* (0.09)	0.24 (0.21)
Prior Investment	-0.46** (0.14)	-0.06 (0.06)	-0.64** (0.16)
Percent Minority	-0.03 (0.07)	0.57** (0.13)	0.70** (0.32)
Total Enrollment	0.53** (0.05)	-0.05** (0.02)	0.54** (0.07)
Elementary District	0.08 (0.15)	-0.29** (0.07)	-0.38** (0.19)
High School District	0.16 (0.23)	-0.17 (0.11)	-0.06 (0.31)
Constant	-2.11 (2.26)	-2.25** (1.10)	-4.95* (2.85)
R-Squared	0.28	0.57	0.19
Observations	904	386	904

*Notes:* (1) Robust standard errors in parentheses, (2) \*\* Significant at 5% level, (3) \* Significant at 10% level

**Table 15**  
**Predicted Total Revenue per Pupil**

Variable	Predicted Revenue		75 <sup>th</sup> - 25 <sup>th</sup>
	25 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile	
Enrollment Growth	3,144	3,741	597
Prior Investment	4,218	3,016	-1,201
Assessed Value per Pupil	2,590	4,654	2,064
Income	3,283	3,802	519
Fraction Minority	3,586	3,525	-61

**Table 16**  
**Critically Overcrowded and Multi-Track Schools, 2004-05**

	All Schools		Other than LA Unified		LA Unified	
	Percent in Critically Overcrowded Schools	Percent in Critically Overcrowded or Multi-Track Schools	Percent in Critically Overcrowded Schools	Percent in Critically Overcrowded or Multi-Track Schools	Percent in Critically Overcrowded Schools	Percent in Critically Overcrowded or Multi-Track Schools
All	16	22	7	14	78	79
White	5	9	3	8	54	55
African American	22	30	12	22	70	71
Hispanic	23	30	10	18	83	84
Nonwhite	21	27	10	17	80	81
Free/Reduced Price Lunch	24	31	11	19	82	83

**Table 17**  
**Characteristics of Critically Overcrowded and Multi-Track Schools, 2004-05**

	All Schools		Other than LA Unified		LA Unified	
	Critically Overcrowded or Multi-Track Schools	All Other Schools	Critically Overcrowded or Multi-Track Schools	All Other Schools	Critically Overcrowded or Multi-Track Schools	All Other Schools
White	13.2%	36.4%	18.4%	36.9%	6.2%	19.0%
African American	11.0	7.1	11.4	6.7	10.4	15.9
Hispanic	65.3	41.7	56.0	41.3	77.7	54.9
Nonwhite	86.8	63.6	81.6	63.0	93.8	81.0
Free/Reduced Price Lunch	73.2	45.2	64.7	44.7	84.5	63.7

**Table 18**  
**Facility Revenue per Pupil, Critically Overcrowded and Multi-Track Schools**

Revenue Source	Districts with Critically Overcrowded Schools	Districts with Critically Overcrowded or Multi-Track Schools	All Other Districts	Los Angeles Unified
Local G.O. Bonds	5,722	4,223	3,825	16,883
State Aid	3,974	4,133	3,495	2,860
Total	11,323	10,459	9,061	20,270
COS Preliminary Apportionment	531	228	...	3,761
Number of Districts	46	107	855	1

**Table 19**  
**Charter School Facility Program Grant Amounts and Caps on Funding**

*Per-Pupil Grant Amounts*

Type of Student	Per-Pupil Grant
Elementary	\$5,870
Middle School	\$6,214
High School	\$8,116
Special Day Class – Non-Severe	\$12,509
Special Day Class – Severe	\$18,703

*Limit on Number of Pupil Grants Requested*

Type of School	Maximum Number of Students Funded per Project
Elementary	350
Middle School	450
High School	600

*Limit on Amount of Funding by Geography*

Type of School	Total Project Funding (\$ million)
Non-Urban Elementary	5
Non-Urban Middle School	7
Non-Urban High School	10
Urban Elementary	6.6
Urban Middle School	9
Urban High School	12.9

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## Appendix

**Table 1A**  
**Regression Estimates: Total Revenue per Pupil**  
**Coefficient/(Standard Error)**

Variable	Unified	Elementary	High School
Assessed Value per Pupil	0.69** (0.21)	0.56** (0.17)	-0.31 (0.33)
Income	-0.55 (0.51)	0.56* (0.29)	1.40** (0.63)
Enrollment Growth	1.24** (0.37)	0.49** (0.23)	3.28** (1.39)
Prior Investment	-0.39* (0.22)	-0.43** (0.18)	-1.46** (0.46)
Percent Minority	0.08 (0.51)	-0.07 (0.08)	-0.19 (0.16)
Total Enrollment	0.51** (0.10)	0.57** (0.07)	0.16 (0.19)
Constant	4.39 (5.34)	-5.61** (2.68)	10.12** (3.77)
R-Squared	0.26	0.25	0.38
Observations	307	517	80

*Notes:* (1) Robust standard errors in parentheses, (2) \*\* Significant at 5% level, (3) \* Significant at 10% level

**Table 2A**  
**Regression Estimates: Local G.O. Bond Revenue per Pupil**  
**Coefficient/(Standard Error)**

Variable	Unified	Elementary	High School
Assessed Value per Pupil	0.62** (0.09)	0.75** (0.07)	0.69** (0.20)
Income	0.02 (0.16)	0.28* (0.15)	0.24 (0.38)
Enrollment Growth	0.21** (0.10)	0.10 (0.16)	0.98 (0.59)
Prior Investment	-0.06 (0.10)	-0.08 (0.09)	-0.21 (0.20)
Percent Minority	0.38 (0.24)	0.51** (0.18)	0.91** (0.34)
Total Enrollment	0.05 (0.04)	-0.12** (0.03)	-0.11 (0.07)
Constant	0.08 (1.78)	-3.29** (1.47)	-1.05 (3.54)
R-Squared	0.35	0.71	0.48
Observations	178	160	48

*Notes:* (1) Robust standard errors in parentheses, (2) \*\* Significant at 5% level, (3) \* Significant at 10% level

**Table 3A**  
**Regression Estimates: Probability of a Successful Bond Election**  
**Coefficient/(Standard Error)**

Variable	Unified	Elementary	High School
Assessed Value per Pupil	0.51** (0.23)	0.75** (0.19)	-0.22 (0.70)
Income	-0.79 (0.49)	-0.03 (0.39)	0.71 (1.35)
Enrollment Growth	0.34 (0.37)	0.12 (0.26)	3.81* (2.13)
Prior Investment	-0.59** (0.28)	-0.68** (0.20)	-1.42* (0.77)
Percent Minority	0.33 (0.58)	0.80* (0.42)	0.24 (0.57)
Total Enrollment	0.51** (0.11)	0.57** (0.09)	0.53* (0.32)
Constant	2.88 (4.82)	-8.91 (3.74)	4.13 (11.70)
R-Squared	0.09	0.19	0.23
Observations	307	517	80

*Notes:* (1) Robust standard errors in parentheses, (2) \*\* Significant at 5% level, (3) \* Significant at 10% level