Proposition 51: School Bonds. Funding for K-12 School and Community College Facilities

Maral Farsi
University of the Pacific, McGeorge School of Law

Follow this and additional works at: https://scholarlycommons.pacific.edu/california-initiative-review

Part of the Legislation Commons

Recommended Citation
Available at: https://scholarlycommons.pacific.edu/california-initiative-review/vol2016/iss1/2
Proposition 51:

School Bonds. Funding for K-12 School and Community College Facilities.

Initiative Statute

Copyright © 2016 by the University of the Pacific, McGeorge School of Law

By

Maral Farsi
M.S.L., University of the Pacific, McGeorge School of Law, to be conferred May 2017
M.P.H., Health Policy and Management, University of California, Los Angeles, 2005
B.S., Health Sciences, California State University, Northridge, 2003
I. EXECUTIVE SUMMARY

Proposition 51, the "Kindergarten Through Community College Public Education Facilities Bond Act of 2016," will authorize $9 billion in bond funding for construction and improvement of K-12 and Community College facilities. Funds from the bond will be stored in the 2016 State School Facilities Fund and 2016 California Community College Capital Outlay Bond Fund. The revenue from the bond program will be distributed as follows:

- $6 billion for K-12 new construction and modernization
- $1 billion for facilities for Charter Schools and Career Technical Education programs
- $2 billion for the construction, renovation, site acquisition, and equipping facilities for Community Colleges

A YES vote means the State could sell $9 billion in general obligation bonds.

A NO vote means the State could not sell $9 billion in general obligation bonds.

II. THE LAW

A. Bonds

Bonds are a tool governments use to finance major capital outlay projects such as roads, prisons, parks, water projects, and, as for Proposition 51, education facilities. Bonds are sold to investors for immediate funding in exchange for repayment with interest under a specified schedule (typically, 30 years).¹

The State sells two major bond types: general obligation bonds and revenue bonds.² Proposition 51 would utilize general obligation bonds, which are directly paid back through the State’s General Fund, which is largely funded by taxes. General obligation bonds require two-thirds of the legislature’s vote to place on the ballot and a majority vote from the electorate for approval.³ Proposition 51, however, was a citizen-initiated ballot measure because, in its initial iteration through the State’s legislature, Governor Jerry Brown vetoed the bill. The repayment of general obligation bonds is guaranteed by the State’s general taxing power.⁴

Conversely, revenue bonds do not require voter approval. There are two types of revenue bonds: traditional and lease-revenue. Traditional revenue bonds are not supported by the General Fund and are paid back by moneys generated by the project itself (such as tolls for new bridges).⁵ Traditional revenue bonds do not require voter approval.⁶ Lease-revenue bonds are paid back

---

² Id.
⁴ See Bonds, supra note 1.
⁵ Id.
⁶ Id.
from lease payments (primarily financed from the General Fund) by state agencies that use the facilities being financed by the bond.\textsuperscript{7}

General obligation bonds, like Proposition 51, are frequently used by school districts, cities and counties that can repay the bonds through increases in property taxes under Proposition 46, which was passed in 1986.\textsuperscript{8} But, especially in recent years, the presence of school facilities bond initiatives has increased.

**B. School Facilities Laws**

The Leroy F. Greene School Facilities Act of 1998 established a State Facilities Program to provide funding for new construction and modernization of existing school facilities on a per pupil basis.\textsuperscript{9} Under the Act, the State Allocation Board would certify funding for these programs.\textsuperscript{10} Under the School Facilities Program, schools submit project proposals to buy land, construct buildings, or improve buildings to the State.\textsuperscript{11}

Since the creation of the School Facilities Program, voters have approved $36 billion in state general obligation bonds for K-12 school facilities and $4 billion for Community College facilities.\textsuperscript{12} To receive funding, schools must submit a proposal to the State’s Office of Public School Construction for review.\textsuperscript{13} There are eligibility criteria based on the type of funding being requested (e.g., K-12, new construction, Community College, modernization, etc.).\textsuperscript{14} In almost all cases, schools that receive state grant funding for approved projects must match that funding locally.\textsuperscript{15}

The match formula varies depending on the type of project. For example, for buying land and new construction, state and local agencies have a 50 percent match.\textsuperscript{16} However, for modernization projects, the match is 60 percent from the State to 40 percent local funding.\textsuperscript{17} When local funding is not available, schools can apply for additional grant funding for up to 100 percent of their project costs.\textsuperscript{18} Unlike for K-12 facilities, the law does not specify any matching contribution model for community colleges. For community colleges, the Chancellor of the

---

\textsuperscript{7} Id.
\textsuperscript{9} CAL. EDUC. CODE § 17070.10 (2016).
\textsuperscript{10} The State Allocation Board is “comprised of the Director of Finance (the traditional chair), the Director of the Department of General Services, the Superintendent of Public Instruction, three members of the Senate, three members of the Assembly, and one appointee by the Governor.” State Allocation Board (SAB), CALIFORNIA DEPARTMENT OF GENERAL SERVICES, http://www.dgs.ca.gov/opsc/AboutUs/sab.aspx (last visited Oct. 13, 2016).
\textsuperscript{13} Id. at 18.
\textsuperscript{14} Id.
\textsuperscript{15} Id.
\textsuperscript{16} Id.
\textsuperscript{17} Id.
\textsuperscript{18} Id. at 18-19.
California Community Colleges ranks proposals using a matrix, and support through local funding is one measure that increases a facility’s chance for funding.  

While the State’s funding has run dry, funds for K-12 school district projects were approved by voters in local elections in 2013 and 2014. Despite lack of funding at the State, there are approximately $2 billion of eligible K-12 school district project applications. These applications were submitted to the State under the current program to make safety repairs, complete seismic renovations, build new schools, and make technology improvements.

C. Proposed Law

Proposition 51 would amend Title 3, Division 14 of the California Education Code by adding four new Chapters to prescribe the fiscal allocations and purpose of the $9 billion bond and to establish a fund in the State Treasury. This measure establishes the 2016 State School Facilities Fund and the 2016 California Community College Capital Outlay Bond Fund to execute the purpose of the measure. The initiative would specify in law the allocation of $6 billion to K-12 facilities, $1 billion for charter schools and career technical education programs, and $2 billion to Community College (See Table 1 for fund allocations and designated purpose of the funds).

The proposal also provides for the management and repayment of the measure, including outlining which entities incorporate existing mechanisms to implement the new bond. The measure would use the State School Building Finance Committee and the Higher Education Facilities Finance Committee to oversee financial management. For interim financing, the initiative provides for a loan designation from specific accounts and permits withdrawal from the General Fund to carry out the purpose of the measure.

<p>| Table 1: Proposition 51 Bond Fund Allocation |</p>
<table>
<thead>
<tr>
<th>Education Level</th>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>New construction of facilities</td>
<td>$3 billion</td>
</tr>
<tr>
<td>K-12</td>
<td>Modernization of facilities</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Charter Schools and Career Technical Education programs</td>
<td>Providing facilities</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Community College</td>
<td>Construction, renovation, reconstruction, site acquisition, equipping facilities, preconstruction</td>
<td>$2 billion</td>
</tr>
</tbody>
</table>

19 Id. at 19.
20 Id.
21 Id.
22 Id.
24 Id., adding CAL. EDUC. CODE 101131.
25 Id., adding CAL. EDUC. CODE 101136, 101138.
III. HISTORY

In the last century, there have been 42 education-related bond measures on the California ballot.\(^{26}\) In the last quarter-century, voters approved a total of $52.68 billion for school construction needs. In 1998, California established the School Facilities Program through Proposition 1A.\(^{27}\) Two years later, Proposition 39 passed, changing the law to allow local entities to pass and issue bonds by a 55 percent approval by voters (as opposed to the two-thirds previously established under Proposition 46 which passed in 1986).\(^{28}\)

The Kindergarten-University Public Education Facilities Bond Act of 2006 (Proposition 1D) was the latest enacted bond act by the voters in the State. Proposition 1D appropriated over $10.4 billion to relieve public school overcrowding and repair older schools.\(^{29}\) Of this $10.4 billion, $7.3 billion went to K-12 education facilities and $3.087 billion to higher education facilities. Most of these moneys were allocated to modernization and new construction and some of it went to supporting smaller classroom sizes.\(^{30}\)

<table>
<thead>
<tr>
<th>Election</th>
<th>Proposition</th>
<th>Amount (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 1982</td>
<td>1</td>
<td>$500</td>
</tr>
<tr>
<td>Nov. 1984</td>
<td>26</td>
<td>$450</td>
</tr>
<tr>
<td>Nov. 1986</td>
<td>53</td>
<td>$800</td>
</tr>
<tr>
<td>Jun. 1988</td>
<td>75</td>
<td>$800</td>
</tr>
<tr>
<td>Nov. 1988</td>
<td>79</td>
<td>$800</td>
</tr>
<tr>
<td>Jun. 1990</td>
<td>123</td>
<td>$800</td>
</tr>
<tr>
<td>Nov. 1990</td>
<td>146</td>
<td>$800</td>
</tr>
<tr>
<td>Jun. 1992</td>
<td>152</td>
<td>$1,900</td>
</tr>
<tr>
<td>Nov. 1992</td>
<td>155</td>
<td>$900</td>
</tr>
<tr>
<td>Mar. 1996</td>
<td>203</td>
<td>$3,025</td>
</tr>
<tr>
<td>Nov. 1998</td>
<td>1A</td>
<td>$9,200</td>
</tr>
<tr>
<td>Nov. 2002</td>
<td>47</td>
<td>$13,050</td>
</tr>
<tr>
<td>Mar. 2004</td>
<td>55</td>
<td>$12,300</td>
</tr>
<tr>
<td>Nov. 2006</td>
<td>1D</td>
<td>$10,400</td>
</tr>
</tbody>
</table>

Source: California Coalition for Adequate School Housing\(^{31}\)

In 2014, California State Legislators tried to place a legislatively-referred bond act that called for $9 billion for school maintenance and construction on the ballot. The legislation,


\(^{30}\) Id.

Assembly Bill 2235 (Buchanan), passed the California State Assembly, but Governor Jerry Brown opposed it before it could pass the California State Senate, and the measure ultimately did not qualify for the 2014 ballot.\(^{32}\) The California Public School Facility Bond Initiative will be the first education-related bond measure to appear on the ballot since 2006, and it is the first ever education-related bond measure that is citizen-initiated.\(^{33}\)

| Table 3: Recent History of Education Bonds (in billions) v. Prop. 51 |
|-----------------------------|----------------|----------------|----------------|----------------|
|                            | 1998 (1A)      | 2002 (47)      | 2004 (55)      | 2006 (1D)      | 2016 (51)      |
| **K-12**                   |                |                |                |                |
| New Construction           | $3             | $6.25          | $4.96          | $1.9           | $3             |
| Modernization              | 2.1            | 3.3            | 2.25           | 3.3            | 3              |
| Hardship                   | 1              |                |                |                |
| Critically Overcrowded Schools | .7           | 1.7            | 2.44           |                |                |
| Overcrowding Relief Act    |                |                |                |                |
| Charter Schools            | 0.1            | 0.3            | 0.5            | .5             |
| Joint Use                  | 0.05           | 0.05           | 0.029          |                |
| Energy                     |                |                |                |
| Career Technical           | 0.5            |                |                |
| **Higher Education**       |                |                |                |
| Community Colleges         | .833           | 0.408          | 0.92           | 1.5            | 2              |
| California State University| .833           | 0.496          | 0.69           | 0.69           |
| University of California   | .833           | 0.746          | 0.69           | 0.69           |
| **TOTAL BONDS AUTHORIZED** | 9.2            | 13.1           | 12.3           | 10.4           | 9              |

Source: California Senate Committee on Education 2014\(^{34}\)

**IV. LIKELY FISCAL EFFECTS**

Bond financing involves payment by the State on the principal and interest until the bond is paid off. States typically pay back investors over a 30 or 35-year period.\(^{35}\) The interest on the $9 billion bond for Proposition 51 is estimated to be $8.6 billion meaning that the overall cost to the State of California would be $17.6 billion, or approximately $500 million annually for 35 years.\(^{36}\)

Overall, the State of California has about $85 billion of outstanding General Fund-supported infrastructure bonds for which the State is making principal and interest payments. The State has an additional $31 billion of General Fund-supported bonds that have not yet been sold.\(^{37}\) In the 2016–17 fiscal year, the annual payment California will make is $2.4 billion for

---

34. SENATE COMMITTEE ON EDUCATION, COMMITTEE ANALYSIS OF AB 2235 (June 18, 2014).
35. See Bonds, supra note 1.
37. Id.
debt previously incurred under general obligation bonds for school facilities and $300 million for community college facilities.\textsuperscript{38}

The impact of $9 billion for Proposition 51 amounts to approximately $500 million annually, which is 8 percent greater than what the State currently spends on principal and interest payments.\textsuperscript{39} The annual payment approximation accounts for less than half of one percent of the State’s current General Fund budget.\textsuperscript{40}

V. CONSTITUTIONAL ANALYSIS AND DRAFTING ISSUES

A. State Constitutional Issues

1. Public Finance Requirements

Proposition 51 would be a bond supported by the General Fund. California’s legislature has the authority to create a General Obligation Proceeds Fund in the treasury, and requires that funds from selling the bonds be paid to the fund.\textsuperscript{41} Each bond has its own distinct account within the General Obligation Proceeds Fund.\textsuperscript{42} Proposition 51 conforms with the public finance requirements by establishing funds to meet its purpose (i.e., 2016 State School Facilities Fund and the 2016 California Community College Capital Outlay Bond Fund).

2. Corporate Benefit

California law requires that moneys should not be appropriated from the State Treasury that would benefit any single entity that is not under that State’s control. Specifically, California’s constitution states: “No money shall ever be appropriated or drawn from the State Treasury for the purpose or benefit of any corporation, association, asylum, hospital, or any other institution not under the exclusive management and control of the State as a state institution…”\textsuperscript{43} In California Family Bioethics Council, LLC v. California Institute for Regenerative Medicine,\textsuperscript{44} the State was challenged on the California Stem Cell Research and Cures Bonds Act, as it appeared to provide a direct benefit for entities that conduct stem cell research. The court ruled that the constitutional provision was not meant to prohibit all appropriations to entities that are not under state control, only to prohibit expenditures of public funds that benefit a singular uncontrolled entity.\textsuperscript{45}

Similarly, Proposition 51 would benefit private developers, contractors, and other institutions that would be the recipients of state bond funds. California Family Bioethics Council clarifies that this would be permissible under the law because the Proposition 51 expenditures would be for a legitimate state interest: improving K-12 and community college facilities.\textsuperscript{46}

B. Drafting Issues

No drafting issues were identified. The original language of the initiative was drafted by Legislative Counsel as a bill. California’s Legislative Counsel is a nonpartisan public agency

\textsuperscript{38} Id.
\textsuperscript{39} Id.
\textsuperscript{40} NOVEMBER 2016 VOTER GUIDE, at 21.
\textsuperscript{41} CAL. CONST. art. XVI, § 1.
\textsuperscript{42} Id.
\textsuperscript{43} Id. § 3.
\textsuperscript{44} 147 Cal. App. 4th 1319, 1330 (1st Dist. 2007).
\textsuperscript{45} Id at 1354.
\textsuperscript{46} Id.
responsible for drafting legislative proposals providing legal expertise to ensure that bills have
the appropriate wording and are properly integrated into existing law.47 The proponents who vied
for placement on the November ballot merely replicated the work already done by those legal
experts who originally drafted the legislation in the Capitol.

C. Severability

Section 4 of Proposition 51 permits the language to be severed should any of the sections
be invalidated. California’s courts have looked to three criteria to determine whether a provision
can be severed: “[T]he invalid provision must be grammatically, functionally, and volitionally
separable.”48 Severability will be permitted if by eliminating some language in Proposition 51
the remaining provisions make sense, the remaining sections can exist independent of the
offending provision. and the electorate would have adopted the section remaining had they
known the offending provision was a problem. If not, then the courts can nullify the measure in
its entirety.49

Since the language in Proposition 51 was vetted by Legislative Counsel, there is a slim
likelihood of any need for severability. In the unlikely event that any portion is declared invalid,
the court would look to some evidence of the voter’s intent to have other portions of the initiative
implemented in the absence of the invalid sections.50

VI. PUBLIC POLICY CONSIDERATIONS

A. Support

Those who argue in support of Proposition 51 cite the need for maintenance or
replacement of school facilities, and urge that these investments will eventually improve access
for higher education and jobs, particularly for high-need communities.51 Additionally, they argue
that the initiative is fiscally responsible because it is being managed by the State, and it will
result in good jobs, which is an investment in the California economy.52 The proponents argue
that these funds would target earthquake retrofitting needs, disability access, school
overcrowding, emergency response system’s needs, and environmental health safety efforts.53

One example of ongoing facilities projects is the work being done by the Office of
Environmental Health & Safety at the Los Angeles Unified School District (LAUSD), the State’s
largest school district, which has programs to address toxic hazards.54 LAUSD is pursuing a
number of ongoing projects to remove lead and arsenic from some of their campuses and at least
one seismic modernization program demonstrates the ongoing need.55 It is not clear whether the

47 Legal Services, STATE OF CALIFORNIA OFFICE OF LEGISLATIVE COUNSEL, http://legislativecounsel.ca.gov/legal-
services (last visited Oct. 16, 2016).
49 Id.
50 Id at 719.
51 NOVEMBER 2016 VOTER GUIDE, at 22.
52 Id.
54 Key OEHS Programs, OFFICE OF ENVIRONMENTAL HEALTH & SAFETY, LAUSD,
55 Site Assessment, OFFICE OF ENVIRONMENTAL HEALTH & SAFETY, LAUSD, http://achieve.lausd.net/Page/3953
LAUSD and other school districts have sufficient local funding available to target these repair and upgrade programs, such as those listed by the LAUSD.

The California State PTA, California Retired Teachers Association, Community College League of California, Faculty Association of California Community Colleges, California School Nurses Organization, and the California Taxpayers Association all contributed to the official Support position argument in the Voter Guide. In addition to those who provided their names and comments for the Voter Guide, the Yes on 51 campaign lists hundreds of other supporters, including Lieutenant Governor Gavin Newsom, California State Superintendent of Public Instruction Tom Torlakson, a bipartisan assortment of state legislators, school districts, trade groups, business associations, unions, and construction and developer associations.

As of October 16, 2016, the supporters of the Yes on 51 campaign had raised over $11 million to support the initiative under three political action committees: Californians for Quality Schools (sponsored by Coalition for Adequate School Housing Issues Committee and California Building Industry Association Issues Committee), Superintendent Tom Torlakson’s Invest in California, A Ballot Measure Committee to Support Proposition 51, and the Community College Facility Coalition Issues Committee, Yes on 51.

Of the 919 contributions and to the political action committees, a vast majority of the over 700 contributors are developers or companies with a potential financial stake in property development (e.g., home builders, developers, school construction companies, and others who regularly have business before school districts and their elected officials). The largest contributors have been the Coalition for Adequate School Housing Issues Committee ($2.3 million) and the California Building Industry Association ($1.6 billion).

B. Opposition

Arguments against Proposition 51 are primarily focused on the debt that would be accrued by the State. The increases would amount to $500 million annually for 35 years in addition to the existing $85 billion already owed. However, opponents also challenge the measure as an unnecessary burden to the State when local bond measures are a better mechanism than statewide measures for funding local schools.

Opponents have also expressed that Proposition 51 would marginalize already disenfranchised communities by providing funding to wealthier school districts that can afford to submit funding requests. They argue that schools with the resources to dedicate staff time to the application process will inevitably be more successful than schools in lower-income communities that do not have staffing to spare.
The financial beneficiaries of Proposition 51 are also a policy target for the opponents of this measure. Governor Jerry Brown, the only state elected official on the record opposing this measure, has publicly stated that Proposition 51 would benefit developers and that local school bond measures minimize government waste.\(^65\)

The California Taxpayers Action Network was the only contributor to the official opposition statement in the voter guide.\(^66\) However, Governor Jerry Brown was quoted in the Voter Guide and has made many public remarks about his opposition to Proposition 51.\(^67\) He has also expressed his concerns about adding more to the state’s existing debt liabilities.\(^68\) He was quoted as saying of Proposition 51, “It’s a blunderbuss effort that promotes sprawl and squanders money that would be far better spent in low-income communities.”\(^69\)

There is no established campaign or political action committee organized to defeat Proposition 51 and, as of October 13, 2016, there were no reported contributions to the opposition campaign.\(^70\) While there is an internet link address provided through the California Voter Guide for “StopProp51.org”, as of October 16, 2016, the website had no content and asks visitors to “Check Back Soon.”\(^71\)

**VII. CONCLUSION**

Proposition 51 is a $9 billion bond to address a lack of school facilities funding. Since 2012, funding has been depleted despite a significant amount of need as demonstrated by a backlog of local requests pending at the state level. The amount of the bond is less than the last four bond measures approved by California’s voters (beginning in 1998) targeting school facilities. However, the State’s bond debt is growing and not insignificant. While Governor Jerry Brown has pleaded with voters to reject the measure due to concerns about government waste, a coalition of developers in construction has amassed a $9 million campaign to see Proposition 51 pass and has the full support of bipartisan elected officials and school districts throughout the State. As with any bond measure and incurred debt, voters must weigh the needs of the funding recipients with the obligation to make payments for the next se

---

\(^{65}\) Id.

\(^{66}\) Id.


\(^{68}\) Id.


\(^{70}\) See *California Proposition 51*, supra note 26.