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Financing School Facilities in California

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IREPP

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Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

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This study provides a comprehensive review of California's system of school facility finance. Along with describing that system, it examines the state's investment over time and provides an analysis of the relationship between the revenues available to school districts and various district characteristics. The study 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?
5. How do charter schools obtain funding for school facilities, and what are the special issues related to charter school facility finance?

Summary of Key Findings

California's system for financing school facilities 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). It funds this program through statewide, voter-approved bonds. Local school districts finance their share of school construction and modernization project costs primarily with revenue raised through local general obligation (G.O.) bond elections.

School facility funding has increased dramatically in recent years, surpassing the national average

Between 1960 and 1982, spending per pupil on school facilities in California consistently fell. Although spending gradually rose after 1982, it has until recently lagged behind the rest of the nation and even further behind states with similar enrollment growth trends. In recent years, the funding level changed dramatically.

Study Methods

This report is an historical review of school facility finance in California, including a review of assessments of the system by several organizations. Along with documenting California's current system of school facility finance, the report examines the level and distribution of school facility funding since 1998.

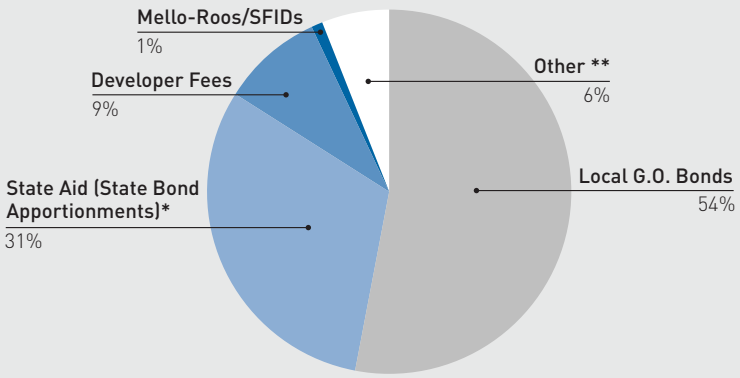
Data sources for this report include:

- California Department of Education (CDE) for data on facility spending over time, developer fee revenues, and other sources of facility revenues.
- U.S. Department of Commerce, Bureau of the Census, for data on facility spending in the United States.
- Office of Public School Construction for data on apportionments of state bond funds.
- EdSource for data on local bond election passage rates and revenues.

The per-pupil revenue calculation:

For the district-level comparisons of revenues after 1998, per-pupil revenue is measured as the sum of all revenue raised between 1998 and June 2006 (measured in constant 2005 dollars) divided by the average district enrollment over the time period.

Figure 1 • **Sources of School Facility Funds in California, 1998 to June 2006**



Local G.O. Bonds	$38.4 billion
State Aid (State Bond Apportionments)*	$21.9 billion
Developer Fees	$6.2 billion
Mello-Roos/SFIDs	$0.7 billion
Other**	$4.0 billion
Total	**$71.2 billion in constant dollars***

The bulk of funds for school facilities come from local general obligation bonds and state bond proceeds. However, the developer fees that districts are allowed to levy on residential and commercial construction also contribute a significant amount. Mello Roos elections and School Facility Improvement Districts (SFIDs), which place levies on just a portion of property in a district, are relevant for only a small portion of districts in the state.

* All dollar amounts were calculated in constant dollars for purposes of the study analysis. In addition, the total for State Aid reflects funds apportioned, not the total amount of voter-approved bonds.

** Includes Certificates of Participation, sale or lease of land/buildings, federal aid, and other small sources of revenue as reported on school district accounting records and prepared by the California Deptartment of Education.

Note: The percentages do not add up to 100% due to rounding.

Figure 2 • **Largest Sources of Facility Revenues per Pupil by Type of District, 1998 to June 2006**

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
Number of Districts	331	548	83
Average Enrollment	12,896	2,127	6,273

Since 1998, the level of state and local support for K–12 school facilities in California has been substantial. Through June 2006 voters have approved $28.1 billion in statewide general obligation bonds and an additional $36.0 billion in local general obligation bonds to support school construction and modernization projects throughout the state. As a result, the level of spending per pupil has surpassed the national average and is now comparable to the level found in other states with similar enrollment growth rates. For the years 2000 to 2004, for example, California spent $1,364 per student compared to the average among all other states of $1,192.

Policy decisions since 1998 led to the increased investment

Changes in state policy have had a direct effect on the state's facility finance system and funding levels. The passage of Proposition 1A in 1998 created the School Facilities Program (SFP) to streamline the process districts go through to obtain state funding. Under the SFP, the state provides funding for new construction and modernization in the form of per-pupil grants. In most cases, projects also require local matching funds. The SFP also made numerous reforms designed to streamline the application process, simplify the state facilities program, and create a more transparent and equitable funding mechanism. Then, in 2000, voters passed Proposition 39. This initiative made it possible for school districts to pass local bonds with a 55% approval under specific conditions instead of the two-thirds vote previously required.

Along with increasing the funding available for school facilities, these actions together appear to have changed the proportion of facility funding that comes from specific sources. Prior to 1998, local bond elections provided about a third of total facility funding. That share has grown to more than half. (See Figure 1.)

The level of facilities funding varies widely across school districts

This study found that revenues per pupil for school construction and modernization vary widely among districts. The study examines these differences based on district characteristics, looking first at the variations among elementary, unified, and high school districts.

Figure 2 shows the variation if one divides all revenue raised between 1998 and June 2006 by the average enrollment over the time period in each type of district.

These averages only partially reveal the variation in the passage rates and funds from local general obligation bonds among the three types of school districts.

- For unified districts, 57% (188 out of 331) held at least one successful bond election between 1998 and 2006; and among the districts that passed bonds, the average amount raised per pupil was $7,134.
- For elementary districts, 30% (166 out of 548) held a successful election, and those districts raised an average of $10,872 per pupil.
- For high school districts, 58% (48 out of 83) held a successful election, and those districts raised an average of $12,019 per pupil.

These disparities in the distribution of local general obligation bond revenue also account for a large part of the difference in *total revenue* that exists within each of the district types. For example, in unified school districts, the difference between the 75th and 25th percentiles of facility revenue per pupil (total revenue raised over the period 1998–2005 divided by student enrollment) is more than $10,000. Similar disparities in facility funding exist among elementary and high school districts.

Figure 3 • **Predicted Total Facility Revenues per Pupil**

Variable	Predicted Revenue 25th Percentile	Predicted Revenue 75th Percentile	75th Minus 25th
Need			
Enrollment Growth	$3,144	$3,741	$ 597
Prior Investment	4,218	3,016	-1,202
Ability To Pay			
Assessed Value per Pupil	2,590	4,654	2,064
Income	3,283	3,802	519

Both measures of need and measures of ability to pay appear to be important determinants of the distribution of facility funding.

The first column identifies the variable that is being measured, such as the level of enrollment growth. The second column (25th percentile) represents the lower end of the distribution of school districts for each variable; i.e., districts that are not showing much enrollment growth. The third column (75th percentile) shows the higher end. The fourth column represents the difference in predicted total revenue between the lower and higher ends. For example, with enrollment growth, districts with higher growth tend to have more revenue per pupil for facilities. However, districts that have previously invested in facilities tend to have less revenue.

DATA NOTE: Using coefficient estimates from a model designed to explain total revenue per pupil, this study predicts how various factors affect the distribution of total revenue per pupil. The data show how moving from the 25th percentile of a given variable to the 75th percentile affects the level of total facility funding per pupil while holding all the other variables constant (at their means).

Funding disparities are related to need and, more strongly, to districts' ability to pay

As Figure 3 shows, the study examined the relationship between facility revenues and measures of school district need, wealth, and student ethnicity.

The data show that part of the variation across districts in facility funding is due to differences in 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 particular, state G.O. bond apportionments increase steadily along with enrollment growth, but local G.O. bond revenue is only weakly related to growth.

Ability to pay, whether measured by local income levels or the assessed valuation of property within a school district, appears to be related to facility revenues. In particular, disparities in school facility funding across districts are 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. The same is true, but to a lesser extent, in regard to districts with high median household incomes.

There 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.

Districts with the greatest facility needs are receiving more funds per pupil

The variations in district funding noted above raise the question of whether districts with the most critical facility needs receive higher levels of facility funding. The state has two objective measures of facility need that could be used to address this question: the CDE classification of Critically Overcrowded Schools and schools that operate on a multitrack, year-round schedule (MTYRE).

This issue is of particular concern because a disproportionate number of

nonwhite and low-income students attend these schools. Among schools on a multitrack, year-round schedule or classified as critically overcrowded, the average percentage of students qualifying for free or reduced price lunch is 73%. Among all other schools, that percentage is only 45%.

Critically overcrowded schools have higher facility funding

In 2002 the state Legislature created the Critically Overcrowded Schools (COS) program to help direct state aid toward districts with the greatest facility needs. The program was funded with $4.1 billion of bond revenue from Propositions 47 and 55. To qualify for COS program funding, a school must have doubled the state's recommended density of students per acre.

This study found that districts that contain critically overcrowded schools tend to have higher facility revenue 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.

It is noteworthy that Los Angeles Unified School District contains nearly 50% of all critically overcrowded schools and has experienced a particularly large increase in facility funding. In that district, total facility funding per pupil is more than twice the statewide average, and local bond revenues are more than four times the average among all other districts.

Multitrack, year-round schools trade facility funds for operating revenue

Multitrack, 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, students in one track are on vacation while those in other tracks are attending classes. In 2004–05, 751 schools—serving approximately 804,000 students—were operating on a multitrack, year-round calendar.

Districts that implement a multitrack calendar are eligible for additional operational funding. The Year Round Grant Program provides additional funding 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. 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.

Funding options for charter schools have improved, but challenges remain

During the 1990s, charter schools faced significant barriers to obtaining adequate school facilities. Under provisions contained in Proposition 39, passed in 2000, it became the legal responsibility of school districts to make every reasonable effort to house charter school students in facilities essentially equivalent to those used to house other district students. In recent years, the government has also established a number of grant and loan programs to help charter schools obtain adequate facilities. Although the facility dilemma facing charter schools has improved, surveys of charter school operators since 2002 indicate that they still struggle to finance their school facilities needs.

Author's Conclusions

The author concludes with a discussion of how this study's findings relate to important recent reports on the school finance system by the Legislative Analyst's Office (LAO), the Little Hoover Commission, and others. He observes that important policy challenges documented in those reports remain to be addressed, even given the recent increase in facility funds. Several reports suggest, for example, that the state develop a more predictable and consistent method of financing school facilities. Others call for further streamlining of state oversight of school facility projects. Consistent with this study's finding that funding for facilities tends to vary systematically with district property wealth, the LAO and others have recommended actions to equalize the ability of school districts to raise general obligation bond revenue. The author also raises the need to expand the definition of Critically Overcrowded Schools, in part to address questions related to schools on a multitrack, year-round schedule.

The state has made more progress in responding to two other facility concerns. It has adapted to changing enrollment trends by putting a stronger emphasis on modernization versus new construction. And it has taken some initial steps toward the creation of a statewide school facility inventory system, including the expected September 2006 adoption of a state standard for good repair.

Eric Brunner, associate professor of economics at Quinnipiac University, holds a Ph.D. from the University of California, Santa Barbara. His research interests include K–12 education finance, intended and unintended consequences of school finance reform, and the political economy of school spending and school choice. This study was completed in October 2006.