GETTING DOWN TO FACTS II

RESEARCH BRIEF | SEPTEMBER 2018

Financing School Facilities in California: A 10-Year Perspective

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About: The Getting Down to Facts project seeks to create a common evidence base for understanding the current state of California school systems and lay the foundation for substantive conversations about what education policies should be sustained and what might be improved to ensure increased opportunity and success for all students in California in the decades ahead. *Getting Down to Facts II* follows approximately a decade after the first Getting Down to Facts effort in 2007. This research brief is one of 19 that summarize 36 research studies that cover four main areas related to state education policy: student success, governance, personnel, and funding.

Stanford University

PACE Policy Analysis for California Education

This brief summarizes the *Getting Down to Facts II* technical report, **Financing School Facilities in California: A 10-Year Perspective**, by Eric J. Brunner and Jeffrey M. Vincent, September 2018.

This and all GDTFII studies can be found at www.gettingdowntofacts.com.

Introduction

California's 6-million-student public school system includes a vast inventory of publicly owned buildings and property. All of these facilities need to be maintained and some need major renovations to ensure health, safety, and educational suitability. Some communities also need new school buildings to house a growing student population.

Research suggests students learn better in classrooms that are modern, comfortable, and safe, but the age and condition of school facilities varies widely across the state. According to a recent estimate, California school districts need to spend between $3.1 billion and $4.1 billion annually just to maintain their existing facilities. Further, the total amount of facility funding needed for California schools during the next decade for modernization and new construction is expected to be about $117 billion.

Meanwhile, many observers raise concerns about the state's current policies related to school facility funding. They cite disparities in school facilities conditions and revenues across districts, and argue that the state's school facilities funding system does not target aid toward districts with the greatest facility needs.

This study explains California's approach to financing public school facilities and examines the level and distribution of state and local school facility funding since 2006, including facility funding for charter schools.

KEY FINDINGS

- Local sources of school facility funding greatly outstrip state support.
- School facility funding is volatile and has declined since 2006.
- Wide disparities in school facility funding that are systematically related to school district property wealth, income, and students' backgrounds result in a relatively regressive finance system.
- Charter school facility funding continues to expand.

CALIFORNIA'S INVENTORY OF PUBLIC K-12 SCHOOLS INCLUDES:

- approximately 10,000 schools;
- more than 500 million square feet of space;
- more than 300,000 classrooms; and
- an estimated 125,000 acres of land statewide.

About 30% of schools in California are at least 50 years old, and about 10% are at least 70 years old.

Summary of Key Findings

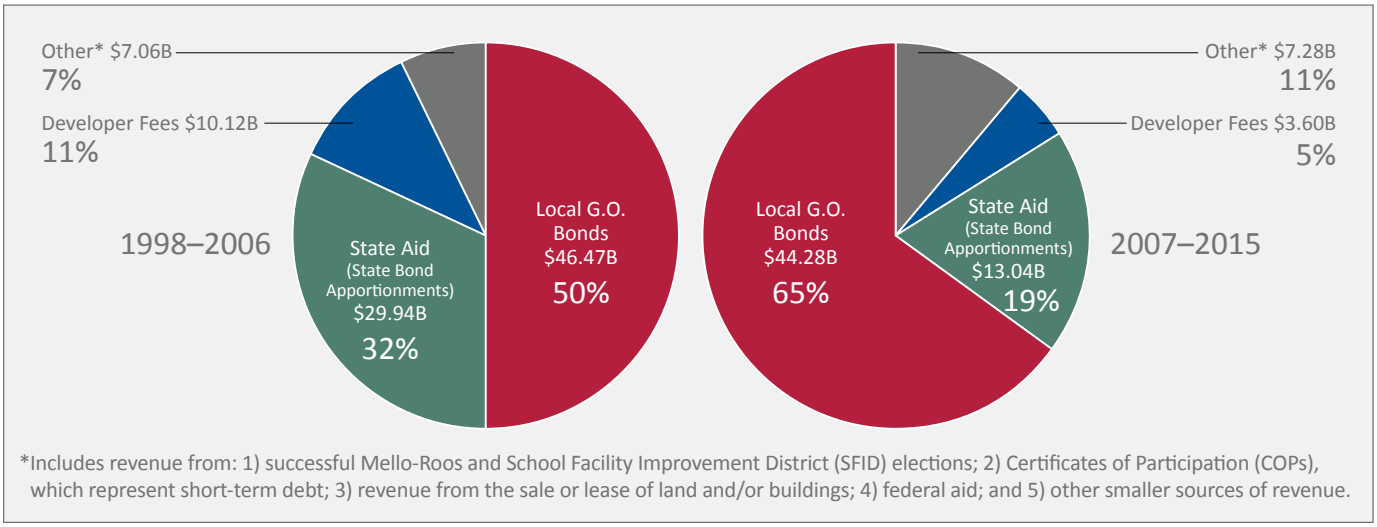
Local funding sources greatly outstrip state support in California's system of school facility funding

California's school facility finance system is a cost-sharing partnership between the state and local school districts. Often described as a three-legged stool, local general obligation (G.O.) bonds, state G.O. bonds, and developer fees provide the majority of funds for school buildings.

Local funding sources are the cornerstone of school facilities investment in California and accounted for more than 80% of funds in the period from 2007 to 2015. School districts rely primarily on revenue raised through local G.O. bond elections. Locally imposed developer fees represent a smaller but important additional source of revenue for school districts. The state provides districts with financial support for new school construction and modernization projects through the School Facility Program (SFP). The program obtains its funding from voter-approved statewide general obligation revenue.

As Figure 1 (on the following page) illustrates, the reliance on local G.O. bonds increased markedly from 2007 to 2015, compared to the prior decade. From 2007 through 2015, no new state bonds were approved, resulting in a sharp decline in the state's share of facility funding. The $6.5 billion drop in revenue from developer fees reflects the decline in new construction that followed the Great Recession.

Figure 1: Portion of Total Facility Revenues from Major Funding Sources and Change Over Time (Dollars in Billions)



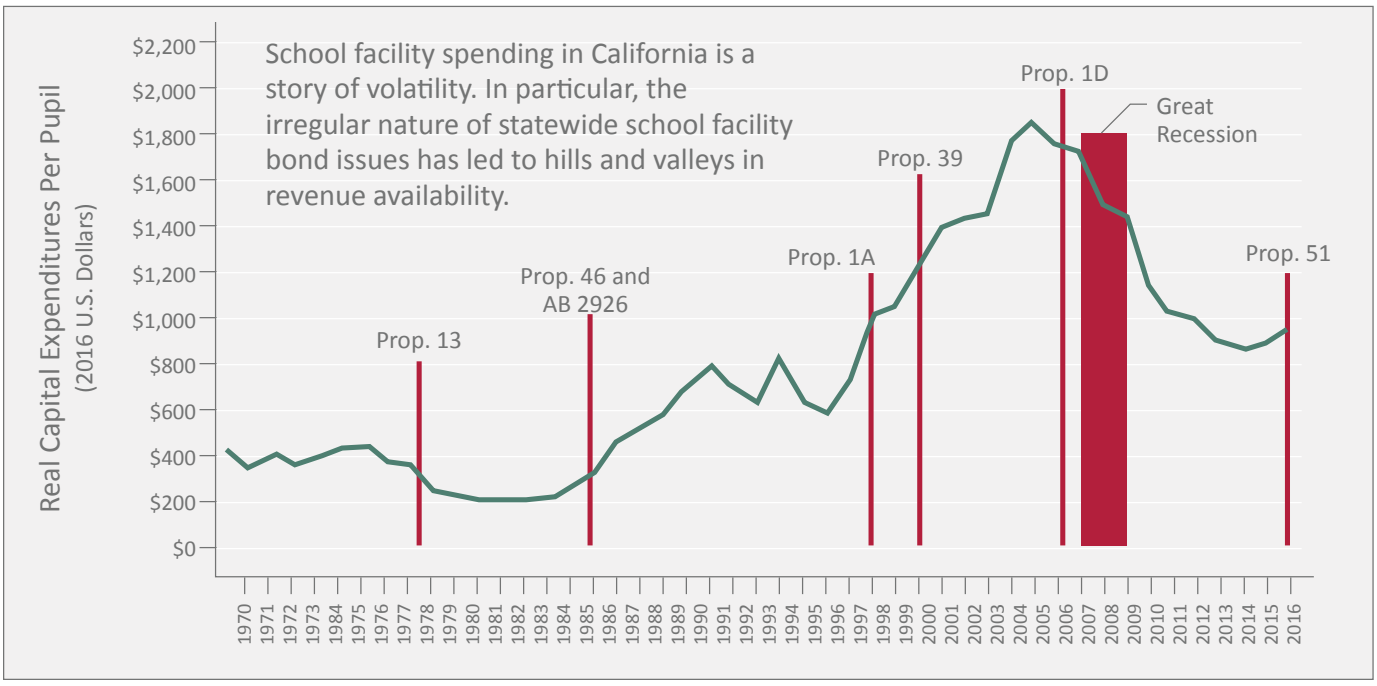
*Includes revenue from: 1) successful Mello-Roos and School Facility Improvement District (SFID) elections; 2) Certificates of Participation (COPs), which represent short-term debt; 3) revenue from the sale or lease of land and/or buildings; 4) federal aid; and 5) other smaller sources of revenue.

Data: California Department of Education, J200 and SACS accounting records. Revenues adjusted for inflation and reported in real 2016 dollars. The revenues from each of the sources may not add up to the total due to rounding.

School facility funding is volatile and has declined since 2006

School facility spending in California has declined substantially since 2006. But, as Figure 2 shows, school facility funding has fluctuated dramatically over time since the 1970s.

Figure 2: California Per-Pupil K-12 Facility Spending, 1970–2016



Data: California Department of Education J200 and SACS accounting records. Expenditure figures are measured in constant 2016 dollars and represent total capital expenditure of K-12 school facilities in a given year.

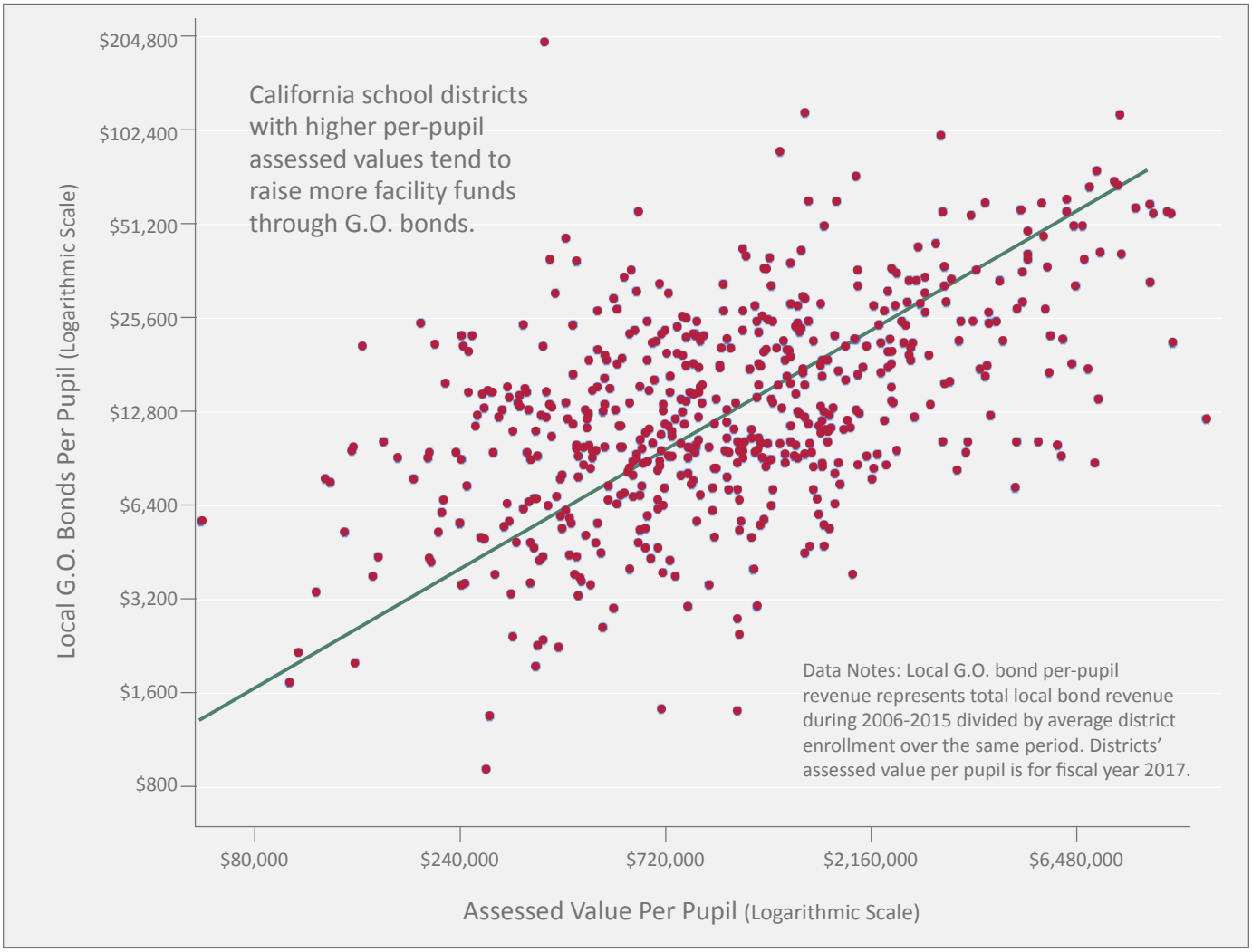
Prior to 2000, per-pupil spending on school facilities in California lagged behind the rest of the nation. But between 2000 and 2008, California surpassed the national average and was comparable to other large states, such as Florida and Texas. Since 2008, per-pupil spending in California has fallen dramatically, but it remains close to the national average.

Wide disparities in funding that are systematically related to school district property wealth, household income, and students' backgrounds result in a relatively regressive finance system

Revenue per pupil for school facilities varies widely across districts. This is partly due to differences in need for additional capacity. Districts with higher rates of enrollment growth—which presumably are building new schools and expanding existing ones—tend to have higher facility revenue per pupil.

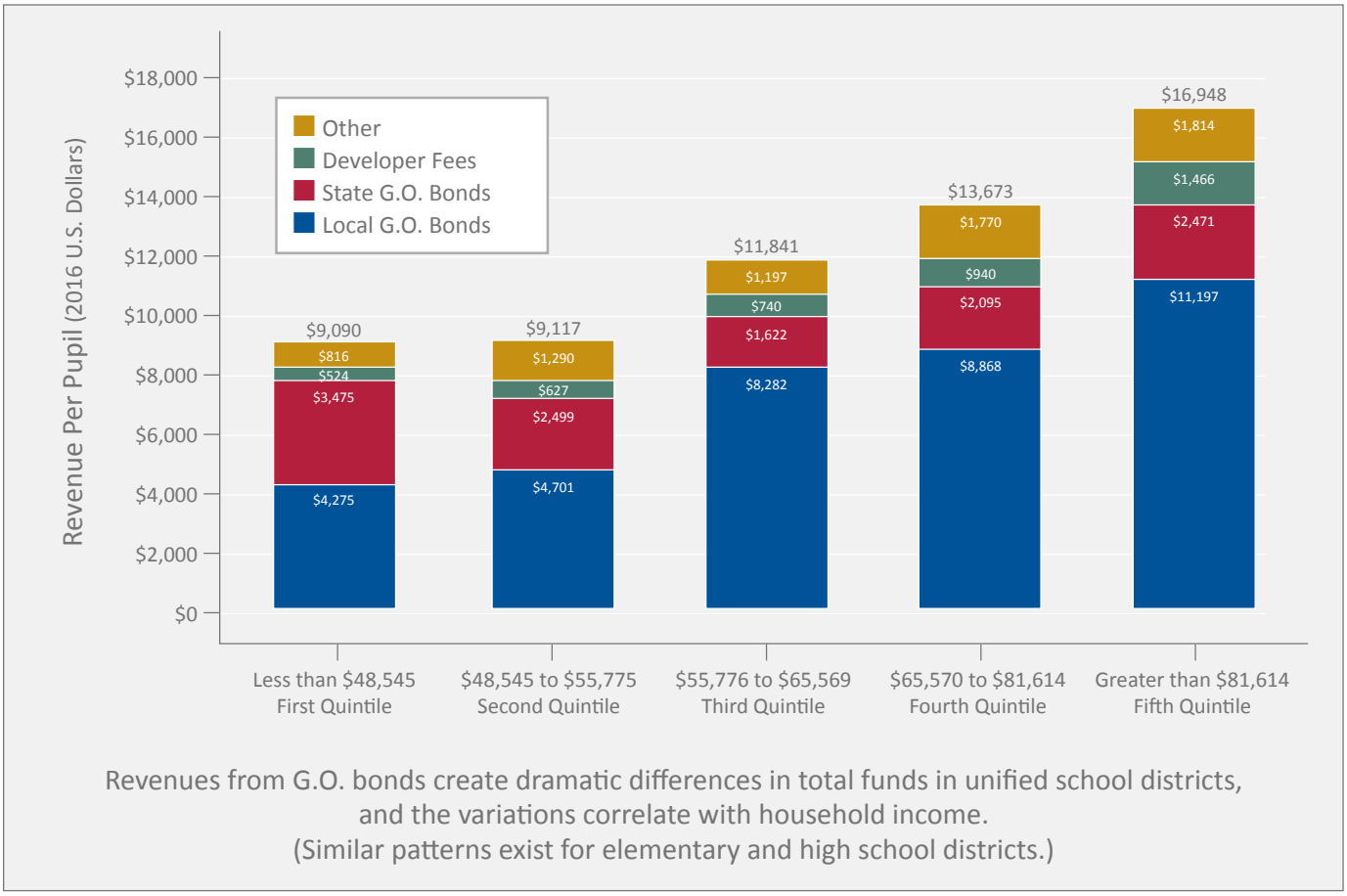
However, differences in local wealth account for a larger share of the variation and, taken as a whole, school facility funding in California is relatively regressive. As Figure 3 shows, school districts with higher property wealth—which typically have higher household incomes—raise substantially more money through local general obligation bonds than their less affluent counterparts. In addition, districts located in rural areas or small towns tend to raise significantly less local revenue than districts located in cities or suburbs.

Figure 3: Assessed Value Per Pupil and Local G.O. Bond Revenue Per Pupil



Local communities see wide disparities in the amount of school facility funds, primarily due to the distribution of local G.O. bond revenue. As Figure 4 shows, differences in communities' local bond revenues correlate with a wide disparity in the distribution of facility revenues between districts with the lowest and highest household incomes. The same relationship is found between facility revenues and percentage of disadvantaged students, based on the unduplicated count of low-income students, English learners, and foster youth.

Figure 4: Distribution of Revenue Per Pupil by Quintiles of Median Household Income, Unified School Districts



Revenues from G.O. bonds create dramatic differences in total funds in unified school districts, and the variations correlate with household income.
(Similar patterns exist for elementary and high school districts.)

Data Notes: Revenue per pupil figures represent total revenue by source during 2006-2015 divided by average district enrollment over the same period. Median household Income comes from the special school district tabulations of the 2010-2014 American Community Survey by the U.S. Census Bureau.

The wealth-based disparities appear to be related to the state's Modernization Program, not its New Construction Program.

SCHOOL FACILITY PROGRAM APPLICATION PROCESSES

New Construction Program

- Projects add capacity to school districts that demonstrate they have or will have unhoused students.
- State funds are provided on a 50/50 state-local sharing basis for eligible costs of state-approved projects.
- Per-pupil state grants are based on the number of unhoused students, as specified through a three-step, state-defined process and calculated at the district level.

Modernization Program

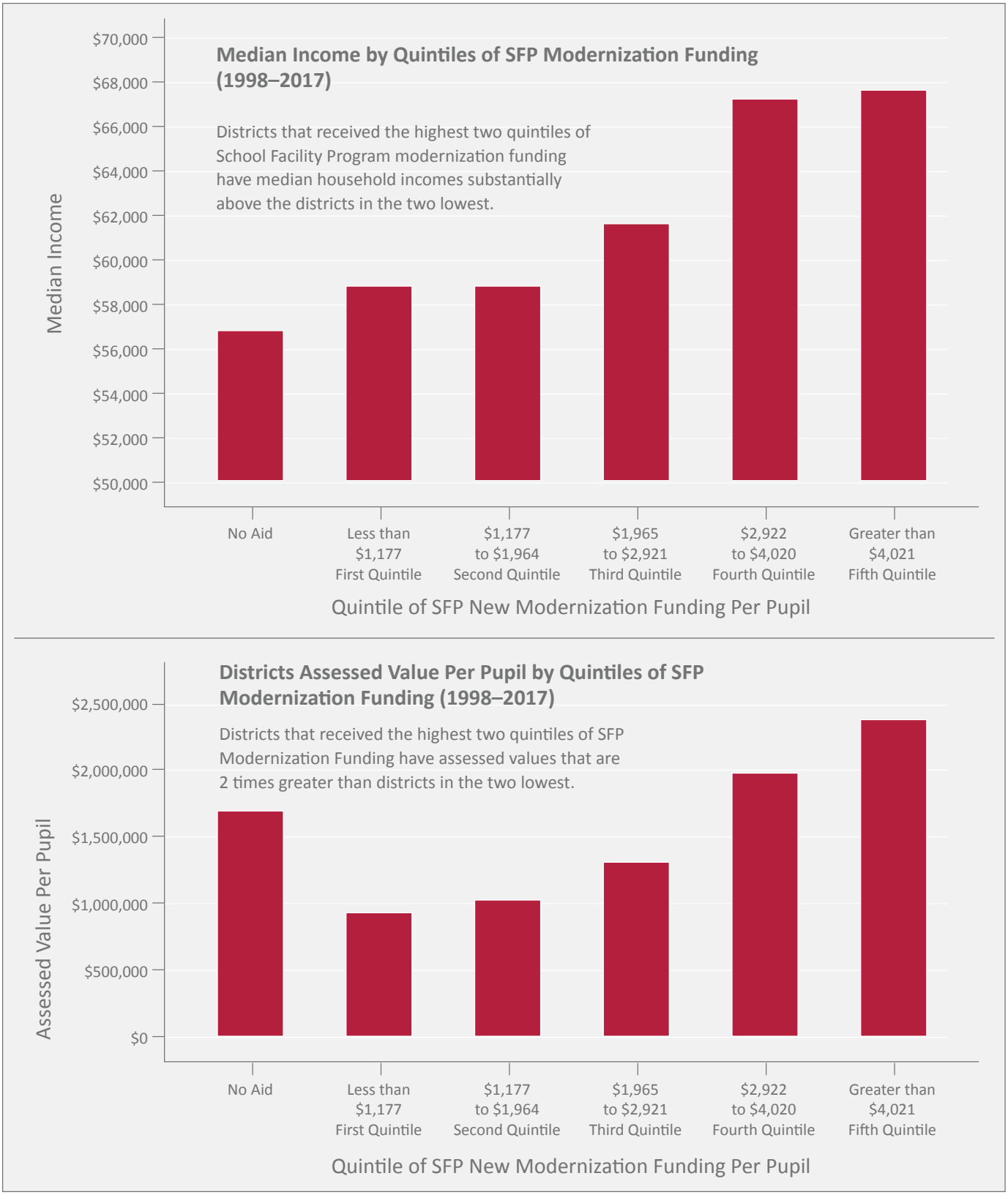
- Projects are to "educationally enhance" existing school facilities that are at least 25 years old (20 years old for portable classrooms).
- State funds are provided on a 60/40 state-local sharing basis for eligible costs of state-approved projects.
- Per-pupil state grants are based on classroom loading standards, as specified through a state-defined process and calculated on a site-by-site basis.

New Construction Program funding aligns with district need. The authors' analysis reveals no systematic relationship between the School Facility Program's new construction funding and district wealth. Rather, the New Construction Program appears to target funding in accordance with district need for additional classroom capacity, based largely on enrollment growth.

Modernization Program funds go disproportionately to wealthier districts. The distribution of School Facility Program modernization funding looks quite different (see Figure 5 on the following page). Districts that received the most modernization funding tend to have higher assessed values, higher household incomes, and less enrollment growth. The 125 districts that did not participate in this program tended to be small, with average enrollments of just 1,249 students.

The state's increased reliance on local funding for K-12 school facilities has apparently exacerbated inequalities in school facility revenue across school districts—a reality that is counter to the state's broader educational finance approach under the Local Control Funding Formula (LCFF).

Figure 5: Assessed Property Values and Median Income of Districts that Received Modernization Funding Divided by Quintile (1998–2017)



Data Notes: SFP funding by program, California Office of Public School Construction. All figures are reported in constant 2016 dollars. Quintiles are unweighted such that 20% of all districts that received any modernization funding during the time period are contained in each quintile.

Charter school facility funding continues to expand, leading national trends

Prior to 2000, California's charter schools had few facility funding options and they faced significant barriers to obtaining adequate school facilities. Since then, the facility dilemma facing charter schools has improved dramatically with increased access to state aid.

Proposition 39, passed in 2000, requires school districts to make every reasonable effort to house charter school students in facilities equivalent to those provided for other students. A 2015 report by the National Charter School Resource Center (NCSRC) concluded that, "California's Proposition 39 involves the strongest and most comprehensive mandate, resulting in the highest rate of charter schools in district space among the surveyed states."

Since 2000, California has also implemented several programs designed to increase funding for charter school facilities. Combined, these programs provided more than $2.9 billion in funding between 2002 and 2017, or approximately $4,900 per pupil based on 2017 charter school enrollments.

Conclusion

School facility funding challenges include amount of funding relative to statewide needs, volatility in funding from year-to-year, and persistent wealth-related funding disparities

Over its 20 years, California's School Facility Program ushered in a new era of state-local cost sharing for public school construction and modernization. The passage of Proposition 51 in 2016 brings new funds to the state's nearly depleted program, but those funds will only provide resources for a short time.

This study suggests that California's current approach to funding its school facilities presents challenges beyond the question of how much funding is available. Funding volatility is one such challenge. In addition, the system's reliance on local general obligation bonds has left lower income and lower property-wealth communities with fewer facility dollars. The state's system for allocating state monies for modernization appears to have exacerbated this inequity. Overall, this study reveals large facility spending differences across districts related to wealth and a state school facility program that does little to dampen inequality except at the very bottom of the wealth distribution. As a result, California's system of school facility finance is relatively regressive.

While many charter schools still face challenges in obtaining adequate school facilities, state aid for charter school facilities has expanded relative to most other states.

Ultimately, California's leaders must decide whether and how they will maintain the state's longstanding commitment to ensuring safe, adequate, and educationally appropriate learning environments for more than 6 million K-12 students. The challenge at hand is how to best leverage state and local funding roles. Even in California's strong local control environment, statewide accountability is necessary to ensure fairness and equity.

Author Biographies

Eric Brunner is a professor of Economics and Public Policy at the University of Connecticut and was the author of a study on the same subject included in the original 2006 Getting Down to Facts project. His research focuses on issues related to the provision and financing of K-12 education. He has authored numerous journal articles and research reports on issues related to the financing of K-12 education in California and school facility finance more specifically.

Jeff Vincent is the director of Public Infrastructure Initiatives at the Center for Cities + Schools at the University of California, Berkeley. His research interests lie at the intersection of land use planning, community development, and educational improvement, with a particular focus on how school facility infrastructure serves as educational and neighborhood assets.