



Understanding Financing Options for School Modernization: A Case Study and Discussion

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ABSTRACT

The California State Legislature established the School Facilities Program to ensure students' suitable learning conditions. The State Allocation Board administers the program and provides funding for various projects related to school buildings, such as construction, modernization, reconstruction, alteration, or addition. However, due to non-excludability and overconsumption, the Facilities Program faces challenges in funding school districts' modernization requests.

To address such challenges, this paper examines the funding sources that local educational agencies use to finance their school facility projects, focusing on the Natomas Unified School District as a case study. The study provides insights into the financing options that Natomas Unified School District uses, potential challenges, and possible solutions to overcome them. The paper also highlights the importance of adequate school facilities, building components, and thermal quality, which can negatively affect student performance. The study aims to identify similar trends, challenges, and solutions in other communities, helping policymakers assess financial options for school modernization.



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INTRODUCTION

The California State Legislature passed the Leroy F. Greene School Facilities Act of 1998 to establish the School Facilities Program (Facilities Program) to maintain suitable learning conditions for students. The State Allocation Board administers the program, which funds school buildings' construction, modernization, reconstruction, alteration, or addition. To be eligible for modernization funds, a school district must meet specific requirements, and the Board will finance a portion of the modernization project using general obligation bond funds. However, the Facilities Program has faced challenges in funding school districts' modernization requests due to non-excludability and overconsumption.

Schools must be safe and functional to ensure students learn and thrive in their educational environment. When schools are poorly maintained or unsafe, it can have a detrimental effect on the health and academic outcomes of students, particularly those who come from low-income families or who belong to minority groups. Upgrading school facilities is therefore of utmost importance. However, obtaining the necessary financing can be difficult, given the limited funds and increased budgetary constraints school districts face. As a result, school districts must seek additional funding sources to ensure students have access to safe, modern, and well-maintained schools they need to succeed.

The purpose of this paper is to conduct an in-depth analysis of the various funding sources used by school districts apart from state aid to finance their school facility projects. To make the study more tangible, the study focuses on a single school district that faces multiple challenges concerning project funding: the Natomas Unified School District (NUSD), a medium-sized school district located north of downtown Sacramento, California. The paper aims to provide valuable insights into the various financing options that NUSD has adopted to fund its school modernization projects, the potential challenges faced by the district when using these options, and the possible solutions to overcome them. By examining NUSD, this research offers relevant information to identify similar trends, challenges, and solutions in other communities, helping policymakers assess school modernization's financial options.

LITERATURE REVIEW

Need for Adequate School Facilities

While every school district that meets the minimum qualifications is eligible for modernization funds, financially challenged school districts (school districts that cannot cover at least 40 percent of their construction cost) struggle to cover 40 percent of their construction cost (Brunner & Vincent, 2018). According to the State Audit Report, School Facilities Program: California Needs Additional Funding and a More Equitable Approach for Modernizing Its School Facilities, on average, financially disadvantaged school districts waited three years before receiving funding compared to financially independent school districts (school districts with the ability to finance 40 percent or more of their modernization project) (Tilden, 2022). The Facilities Program reviews and processes applications for non-health and safety projects on a first-come, first-served basis. The more dependent a school district is on State funding to start or complete its project, the less likely it is to be able to move forward with its project until it receives State funding. Conversely, financially independent school districts that can progress without State funding are immune to the wait times associated with the first-come, first-served model. The Report concluded that the system the State Allocation Board and the Office of Public School Construction currently use for processing modernization applications likely limit the ability of

less wealthy school districts to modernize their school facilities (Tilden, 2022). The effect on financially challenged school districts worsens when the State lacks funding for modernization projects. Between 2015-16 and 2018-19, 108 schools in 60 school districts temporarily closed due to poor facility conditions (Gao & Lafortune, 2020). According to the US Commission on Civil Rights, low-income students and students of color often attend schools that lack proper physical maintenance and equitable access to technology, technology support, and other critical facilities ("Public Education Funding," 2018). The disparities between financially independent and challenged school districts can negatively harm student outcomes.

Building Components and Student Performance

Older buildings often need more features for a conducive learning environment, such as proper environment thermal control, adequate lighting, suitable roofs, and sufficient space (Baker & Bernstein, 2012). In cases where these components exist, they may need better maintenance practices to function. School buildings must provide a good learning environment to ensure students' success. The connection between an excellent physical climate and effective student learning is vital.

Thermal Quality

Thermal comfort is not just about providing sufficient amounts of adequately heated or cooled air. It is also related to user control, air velocity, radiant surfaces, clothing, and activity level. Baker and Bernstein (2012) state that even minor temperature changes can affect student performance. Since the 1930s, studies have supported the idea that classroom interiors must be kept within a small range of temperatures to be comfortable. However, in the 1970s, the trend focused exclusively on controlled temperature and humidity in school buildings, as designers eliminated windows to keep temperatures constant while reducing energy use. These 'neutral' air-conditioned spaces may not always be best for student health. A recent study conducted in a hot and humid climate found that students attending naturally ventilated childcare centers had lower asthma symptoms and allergy levels than those in air-conditioned childcare centers (Zuraimi et al., 2007). Current research continues to produce findings that indicate that even small temperature changes can impact student performance. In a study by Wyon and Wargocki (2007), reducing the temperature from 77°F to 68°F significantly impacted the speed of students' performance on the same test. The results showed a linear relationship, with a 2 percent -4 percent improvement in performance speed for all tasks for every 1.8°F reduction in air temperature.

Acoustic Quality

Numerous studies have shown that proper acoustic design in schools is crucial for better hearing performance, directly impacting speech intelligibility and ultimately affecting student learning outcomes (Schirn, 2023). Low background noise levels and speech clarity are critical in maintaining appropriate acoustic conditions for student learning. A recent study conducted in Denmark (Klatte et al., 2011) investigated the impact of classroom reverberation on children's performance and well-being in a set of classrooms. The study compared children's short-term memory, speech perception abilities, and attitudes towards their classrooms and teachers in classrooms with different reverberation times ranging from 0.49 to 1.1 seconds. The American National Standards Institute standard states that the maximum RT in regular-sized classrooms should be 0.6 seconds. The study found a significant negative impact on short-term memory and

speech perception as the reverberation time increased. Therefore, proper and accurate hearing is essential for student learning in the classroom.

Lighting

Research on lighting and its effect on classrooms has been underway for over a century. In recent years, the focus has been on the importance of natural light, following a trend of schools being built without windows in the 1970s and 1980s to save energy (Baker & Bernstein, 2012). It was previously acknowledged that natural daylight was necessary for healthy learning environments, but the energy crisis of the 1970s led to a departure from this. Researchers found no discernible impact on test scores then, but teachers and students were unhappy with the lack of natural light. However, the dissatisfaction was not considered critical to student performance (Baker, 2012). Recently, renewed attention has been paid to the importance of natural light in classrooms. According to a study by Kuller and Lindsten (1992), students without access to natural light experienced delayed seasonal cortisol production. This hormone is associated with the ability to concentrate. Regarding academic impacts, one study found that students in daylit classrooms had improved math and reading tests over one school year more than students in windowless classrooms (Heschong, 1999).

Proposition 13 and the Aftermath

Understanding the current funding patterns for facilities requires examining historical spending levels and changes in revenue sources for school construction and modernization over time. Before the passage of Proposition 13 in 1978, California primarily financed school construction and renovation through funds raised by local general obligation bond elections. Two-thirds of the district voters were required to pass a local bond measure. 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, set at 1.25 percent of the total assessed value of all taxable properties (both unitary and nonunitary) within an elementary and high school district and 2.50 percent for unified and community college district (Brunner & Rueben, 2001).

In June 1978, California voters passed Proposition 13, which limited the sum of all local tax rates to 1 percent of assessed value plus an adjustment for any outstanding local debt. Proposition 13 (1978) also limited the amount a respective district could levy on property owners of all taxable properties within a district not to exceed \$30 per \$100,000 of the assessed value of a taxable property within an elementary or high school district or \$60 per \$100,000 of the assessed value of a taxable property for unified and community college districts. This resulted in the loss of power for school districts and other local governments to set their property tax rates. As a result, local agencies, including school districts, could no longer issue general obligation bonds, which shifted the primary responsibility for financing new school construction and modernization from local school districts to the state.

Shortly after the passage of Proposition 13 (1978), it became increasingly evident that the revenue generated through state bond issues was insufficient to meet California's schools infrastructure needs. Therefore, new programs were passed by voters and the State Legislature to restore local districts' authority to raise funds for constructing and modernizing schools. In 1982, the Legislature passed the Mello-Roos Community Facilities District Act, which enables a Mello-Roos district to tax real property owners within the Community Facilities District to fund

public improvements and services such as infrastructure, schools, parks, and police protection for newly developed areas. In 1986, voters passed Proposition 46, which reinstated the power of local school districts. Under Proposition 46, school districts are allowed to increase the property tax rate above one percent for the period necessary to pay off new general obligation bonds if the following conditions are met:

- Two-thirds of those voting in a local election have approved the issuance of the bonds.
- The money raised through the sale of the bonds is exclusively used to purchase or improve land and buildings.

In 2001, the largest sources of revenue for school districts were local general obligation bonds, state aid, and developer fees, which comprise 73 percent of all funding (Brunner & Rueben, 2001). Other sources of revenue include short-term debt, known as certificates of participation, interest on funds that the school district has received but not yet spent, federal aid, revenue from the sale or lease of land, buildings, and other capital to outside organizations, and other miscellaneous revenue sources. It is worth noting that Mello-Roos funds are not included in the school district accounting records, but they constitute about 4 percent of facility funding (Brunner & Rueben, 2001). Additionally, federal funding for school facilities is less than 1 percent.

Proposed Solutions

Parcel Tax

To get around their revenue limits, districts can impose a parcel tax. Parcel taxes are administrated as part of the property tax system. A parcel tax is an additional charge on a parcel of property based on either a flat per-parcel rate or a variable rate, depending on the size, use, and number of units on the parcel. A parcel tax includes, but is not limited to, all types of Mello-Roos taxes and special taxes for governmental purposes such as libraries, hospitals, schools, protection services, fire protection, ambulance services, parks, or museums. School districts can levy parcel taxes to support capital investments or to finance current operating expenditures. Because parcel tax revenue does not count as local revenue for the state's revenue limits, it is also a way for school districts to exceed the revenue caps imposed by the state (Lang & Sonstelie, 2015). Ironically, this revenue collection method stems from Proposition 13 (1978).

Before 1970, California's school finance system was like most other states. School districts could set property tax rates as their primary revenue source, and the state could provide additional funding to districts with lower bases. However, variations in revenue per pupil were still present. As the state offset some differences in tax base among high and low-income school districts, revenue per pupil varied widely across districts. The California Supreme Court's *Serrano v. Priest* (1972) ruling declared such variations were unconstitutional violations of equal protection clauses (Fischel, 2010). In response, the State Legislature established revenue limits for each school district, placing a cap on the school district's revenue from property tax and state aid, allowing for minor increases. The increases were smaller for high-revenue districts than for low-revenue districts, which tended to equalize revenue per pupil over time. However, the revenue limit system had a significant loophole, as school districts could exceed their residents' limits by a majority vote. This loophole made the state revenue limit ineffective, as school districts could exceed their residents' limits by a majority vote. Proposition 13 (1978) partially closed this

loophole by limiting the property tax rate to 1 percent, a rate less than half of the statewide average (Brunner & Rueben, 2001). School districts heavily relied on property tax, leading to a reduction in revenue. The Legislature increased state aid to bring each district's revenue up to its limit.

Those who oppose local funding measures such as parcel taxes argue that they are not adjusted based on an individual's wealth, which results in a higher burden for taxpayers with a lower ability to pay. Some other arguments against parcel taxes demand more clarity about the tax details. School districts do not have control over how the tax items are presented on the bill.

School Facility Bond

A school bond measure allows local schools to generate funds for repairing, constructing, or replacing school facilities. During a bond election, voters decide whether to authorize a school district to issue bonds in a specific amount. The investors who buy these bonds are paid back with interest using funds collected through all taxable property taxes.

Before 2001, an elementary, high school, unified, or community college district had to get two-thirds of the voters approval for a district's general obligation bond to pass. In 2000, California voters passed Proposition 39, which gave districts another option for authorizing and issuing bonds. This new law allows school bonds to be approved with a 55 percent majority vote if the district complies with specific administrative requirements. These requirements include establishing an independent citizens' oversight committee to monitor the use of the funds.

Both the state and local school districts issue bonds to pay for school facilities. The state's School Facilities Program provides grants to school districts that cover half of the cost of new construction projects and a larger share for modernization. Since the passage of Proposition 39 in 2000, which lowered the share of votes needed to pass local school bonds from two-thirds to 55 percent, the number of local bonds proposed and their passage rate have been higher (Lopes & Ugo, 2017). Further, local bond funding outpaces state bonds. According to Lopes and Ugo, Proposition 55 (2004) and Proposition 1D (2006) provided \$16.8 billion in funding for K-12 school facilities for new schools and renovation to existing buildings to reduce overcrowding. Meanwhile, between 2004 and 2016, school districts across California proposed 1,018 bond initiatives, totaling \$91.1 billion in funding.

Unlike parcel taxes, which have a more nuanced opposition, opponents of bond measures argue that voters may not understand that bonds create debt, which is repaid through property taxes.

CASE STUDY: NATOMAS UNIFIED SCHOOL DISTRICT

Although the literature review suggests various funding sources that school districts can use, it remains unclear how they can upgrade their facilities when state assistance is dwindling. To better understand how school districts supplement state aid, I interviewed a correspondent from NUSD to identify the available revenue sources, challenges faced by NUSD when collecting from these sources, and potential solutions to overcome these challenges and secure the necessary funds.

NUSD was chosen given the region's unique situation compared to neighboring area and school districts. During the mid-2000s, Natomas was the fastest-growing region in Sacramento,

primarily due to the booming housing market. However, this growth halted during the housing crisis, and the federal flood-protection authorities imposed a building ban on the Natomas basin due to concerns about the adequacy of levees in 2008. Natomas was essentially frozen in place for years but began to thaw several years ago when the federal government approved \$1 billion for levee upgrades and lifted the restrictions that led to the de facto moratorium. In 2017, new homes were built and sold in significant quantities in Natomas for the first time in a decade. Natomas's growth has contributed to NUSD's schools' growth at a time when school districts across California are experiencing declining enrollment.

Table 1: 2014 and 2017 Sacramento County School District Enrollment Data

1. Elk Grove Unified School District	62,499	1. Elk Grove Unified School District	63,061
2. San Juan Unified School District	49,035	2. San Juan Unified School District	49,255
3. Sacramento City Unified School District	47,031	3. Sacramento City Unified School District	46,815
4. Stockton Unified School District	39,486	4. Stockton Unified School District	40,984
5. Twin Rivers Unified School District	31,122	5. Twin Rivers Unified School District	31,979
6. Lodi Unified School District	30,256	6. Lodi Unified School District	30,797
7. Manteca Unified School District	23,079	7. Manteca Unified School District	23,441
8. Folsom-Cordova Unified School District	19,356	8. Folsom-Cordova Unified School District	20,312
9. Natomas Unified School District	13,042	9. Natomas Unified School District	14,631
Source: 2014 NUSD Facilities Masters Plan - Sacramento County School District Enrollment Data		Source: NUSD 2017 Facilities Masters Plan - Sacramento County School District Enrollment Data	

The district now operates 15 schools, serving students from transitional kindergarten (TK) to grade 12, enrolling 11,868 students (16,421 total, including students enrolled at a charter school). The three largest demographics in the district are Hispanic (32.9 percent), African-American (20.5 percent), and White (14.5 percent). NUSD serves students from socioeconomically disadvantaged backgrounds (55.8 percent), English learners (14.7 percent), and foster youth (0.5 percent) with a budget of just under \$200 million, according to their local control accountability plan.

FINDINGS

NUSD Financing Options

Two significant sources of revenue have supplemented three recent projects within NUSD:

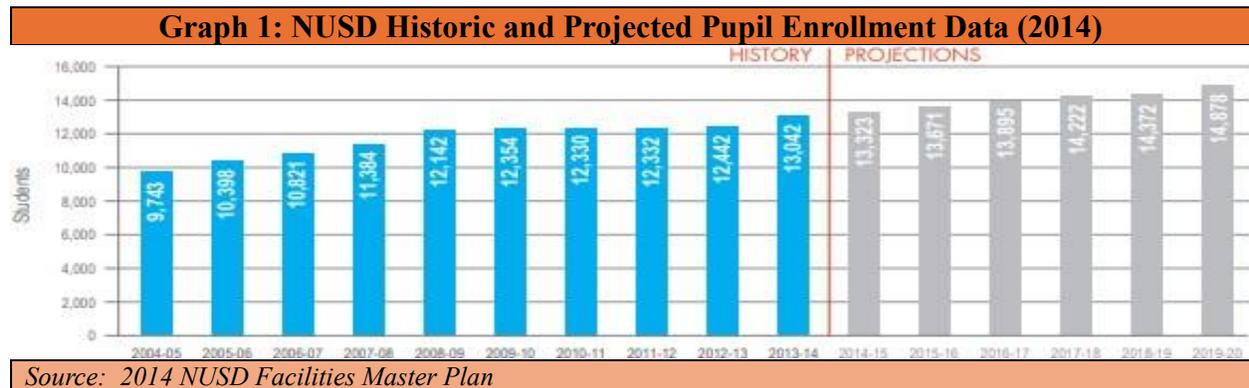
Measure J (2014) authorized NUSD to increase its debt by \$129 million by issuing general obligation bonds. The proceeds from issuing and selling such general obligation bonds could only be used for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping or the acquisition or lease of real property for school facilities.

Measure L (2018) authorized NUSD to increase its debt by \$172 million through issuing general obligation bonds. The proceeds from issuing and selling such general obligation bonds could

only be used for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping or the acquisition or lease of real property for school facilities.

According to the Associate Superintendent of Human Resources and Facilities, the 2014 and 2017 Facilities Master Plans were also significant, inspiring the introduction of Measure J (2014) and L (2018).

The 2014 Facilities Master Plan came about after NUSD experienced significant growth in the 80s and 90s, with enrollment surging and numerous schools constructed. Enrollment plateaued from 2008 to 2013 but increased by 600 in 2013/2014, with a projected growth to serve 14,878 students by 2019/2020.



In 2014, four forums were held at various schools to gather community input on their needs and wants. The feedback received focused on replacing portables, improving lighting and play fields, and making classrooms more flexible and adaptable. A school site needs assessment was conducted, and each improvement noted in the physical conditions assessment and Master Plan projects was provided with a "construction" cost and a "total project" cost. The "total project" cost includes hard and soft costs, such as architectural and engineering fees, agency fees, testing and inspections, contingencies, escalation, administrative fees, legal fees, reproduction, and advertising expenses.

Table 2: Projected Schoolsite Renovation Estimates (2014)

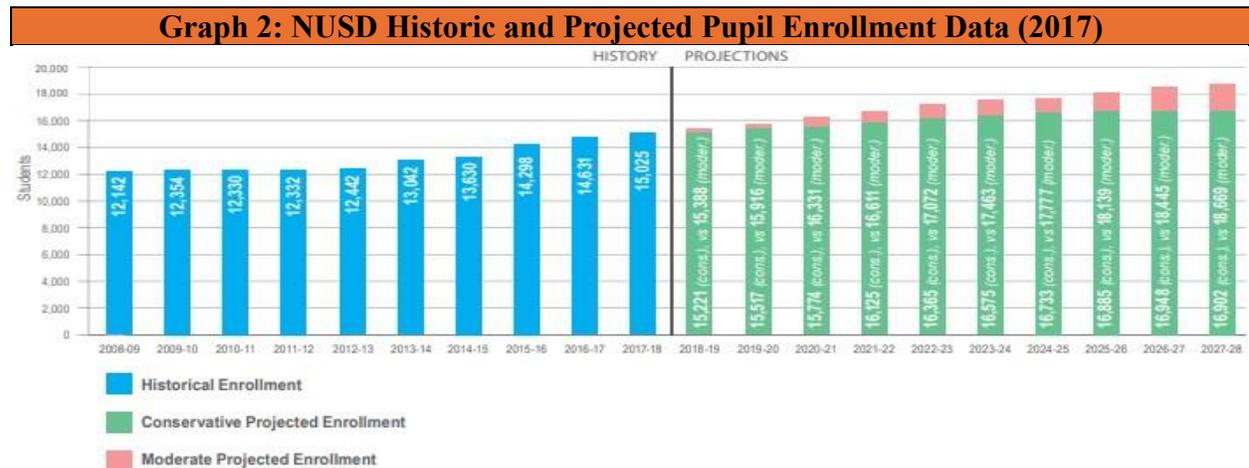
ELEMENTARY / K-8 SCHOOLS				
School	Facility Condition Assessment Short-Term (Urgency 2-3)	Facility Condition Assessment Long-Term (Urgency 0-1)	Master Plan Projects	Site Totals
American Lakes	\$2,267,940	\$5,424,216	\$8,553,600	\$16,245,756
Bannon Creek	\$3,632,702	\$261,181	\$9,372,038	\$13,265,921
H. Allen High	\$679,959	\$4,987,017	\$1,132,650	\$6,799,626
Jefferson	\$3,336,047	\$2,132,745	\$9,589,050	\$15,057,842
Natomas Park	\$1,378,821	\$3,852,725	\$6,058,125	\$11,289,671
Two Rivers	\$1,012,314	\$3,354,125	\$813,578	\$5,180,017
Witter Ranch	\$2,235,958	\$3,085,854	\$3,872,610	\$9,194,422
Heron K-8	\$1,219,870	\$5,430,215	\$10,536,750	\$17,186,835
Bannon Creek K-8*	0	0	\$13,041,000	\$13,041,000
H. Allen High K-8+	0	0	\$27,681,750	\$27,681,750
TOTALS	\$15,763,611	\$28,528,078	\$90,651,151	\$134,942,840

* Totals are for additional facilities for K-8 conversion. See Bannon Creek ES for othersite project costs.
 + Totals are for additional facilities for K-8 conversion of site. See Hight ES and Natomas MS for other site project costs.

Source: 2014 NUSD Facilities Master Plan.

The Master Plan was presented on June 11, 2014, and was approved by the Board of Trustees on June 25, 2014.

In 2017, NUSD revised its Master Plan three years after its initial release. Despite having more modern facilities than its neighboring districts, NUSD faced new challenges due to the ever-evolving education sector and technological advancements. In response, NUSD recognized the need to modify its existing facilities to accommodate the changing face of learning, which includes new standard core instruction and embracing 21st-century learning. These new standards have led to a transformation in the classroom environment, requiring rethinking existing facilities. Additionally, the sprawling neighborhoods in Natomas required that NUSD factor in additional growth in its upcoming years, which was not predicted in its 2014 Master Plan.



Source: 2017 NUSD Facilities Masters Plan

NUSD's revised plan includes additional costs beyond their original estimate for further improvements to existing and new projects. The total hard costs are estimated at a 25 percent markup on subcontract value and 30 percent soft costs. A correspondent from NUSD states that construction cost escalation has increased by 12 percent over the last seven years.

Table 3: Projected Schoolsite Renovation Estimates (2017)

ELEMENTARY / K-8 SCHOOLS					
School	Facility Condition Assessment Remaining	Master Plan Projects Remaining	In-Progress Cost	Completed / Actual Cost	Overall Remaining Cost
H. Allen Hight ES	\$6,555,688	\$1,476,563	\$0	\$134,429	\$8,032,251
H. Allen Hight K-8*	\$0	\$38,742,188	\$0	\$42,207	\$38,742,188
Natomas Park ES	\$5,376,716	\$1,157,813	\$0	\$9,098,797	\$6,534,529
Two Rivers ES	\$4,979,549	\$3,948,828	\$0	\$232,207	\$8,928,377
Witter Ranch ES	\$6,211,706	\$5,877,266	\$0	\$199,633	\$12,088,972
American Lakes K-8*	\$8,967,154	\$29,665,469	\$0	\$291,356	\$38,632,623
Bannon Creek K-8*	\$4,805,482	\$28,031,250	\$0	\$7,881,033	\$32,836,732
Heron K-8	\$8,881,191	\$4,587,891	\$8,105,180	\$268,439	\$13,469,082
Jefferson K-8*	\$3,086,408	\$26,914,063	\$11,581,860	\$199,344	\$30,000,471
Paso Verde K-8 (New Site)**	\$0	\$45,000,000	\$0	\$0	\$45,000,000
TOTALS	\$48,863,894	\$185,401,331	\$19,687,040	\$18,347,445	\$234,265,225

*Totals are for additional facilities for K-8 conversion.

**Newly constructed campus, no future work being projected for the next 10 years.

Source: 2017 NUSD Facilities Masters Plan

It is worth noting that the NUSD relied little on state funding from the school modernization project fund as only one of its major projects. Of NUSD projects from 2014 to 2018, NUSD only applied for state funding for one of its projects, Jefferson Elementary School. However, while NUSD was eligible to receive state funds to modernize Jefferson Elementary School, access to those funds was delayed. More specifically, NUSD waited approximately two years to receive notification of eligibility and another year to receive funding from the State Allocation Board. During that time, NUSD's estimated construction cost to modernize Jefferson Elementary School increased, rising 12 percent higher than the original cost estimate. Although NUSD received funding from the State Allocation Board, the dispersed funding did not cover the increased construction cost. Consequently, NUSD was forced to cover the difference between when the application was submitted and when the funding was dispersed. As a result, NUSD primarily relies on local bond funds to finance its modernization projects.

Furthermore, with the recent explosion in housing developments, NUSD has collected more developer fees than in the previous decade. However, according to the correspondent at NUSD, developer fees total between \$800,000 and \$1 million. This data would suggest that while local bond funds, developer fees, and state remain the primary funding sources for school modernization projects, these sources now contribute roughly 85 percent of modernization projects for school districts, a 12 percent increase from Brunner & Rueben's 2001 data. Other methods used to modernize their facilities across campus in the NUSD included a certificate of participation. A certificate of participation is a lease-financing agreement used by a municipality or local government to acquire real property. Under the agreement, the school district makes regular payments over the annually renewable contract for the acquisition and use of the property. According to the correspondent at NUSD, the school district has only used this method once to finance a school modernization project. Using the certificate of participation option is also consistent with the findings of Brunner and Rueben (2001).

With the passage of Measure J (2014) and Measure L (2018), NUSD's funding source came from general obligation bonds, with developer fees and state aid coming in second and third, respectively. This information is consistent with data found by Brunner & Rueben (2001) that local general obligation bonds, state aid, and developer fees make up 73 percent of funding sources for modernization projects. While general obligation bonds, developer fees, and state aid made the most significant contributions to the modernization project, the use of general obligation bonds, in the NUSD case, contributed roughly 82 percent of modernization funding.

DISCUSSION

Politics of Introducing a General Obligation Bond

However, introducing a bond is more complex and requires coordination among school districts and city leaders. Table One shows that NUSD needed at least \$135 million to complete the list of modernization projects. Further, after conducting a revised facilities needs assessment in 2017, NUSD needed an estimated \$234 million to complete the list of modernization projects. Based on the facilities needs assessment from 2014 and 2017, NUSD projected the cost of modernization projects to total \$369 million. However, after calculating the total from Measure J (2014) and Measure L (2018), NUSD collected \$301 million, roughly accounting for 82 percent of the total cost. If NUSD heavily relies on local bond dollars, why not return to the voters? As indicated by the correspondent, existing law limits the amount an elementary, high school, unified, and community college district can levy on the residence.

Specifically, the statute prohibits the total amount of bonds issued from exceeding 1.25 percent for elementary or high school districts or 2.50 percent for a unified school district and community college district of the total assessed value of all the taxable property (both unitary and nonunitary) within each district respectively. With voter authorization, school or community college districts may issue general obligation bonds to raise funds to build or renovate school facilities. For example, if the assessed value of all taxable properties within a unified school district totaled \$15 billion, a unified school district would be limited to 2.50 percent of that total. As a result, a school district could introduce a general obligation bond that could not exceed \$375 million.

Moreover, statute limits the amount a respective district could levy on property owners of all taxable properties within a district not to exceed \$30 per \$100,000 of the assessed value of a taxable property within an elementary or high school district or \$60 per \$100,000 of the assessed value of a taxable property for unified and community college districts. For example, the assessed value of a home in a unified school district is \$600,000. Accordingly, the maximum amount that the unified school district may levy is \$60 per \$100,000, resulting in that particular property owner paying \$360 per year.

Both these limitations are present in Measure J (2014) and Measure L (2018). Measure J (2014) limits local property owners to an annual cost of \$60 per \$100,000 of assessed valuation, while Measure L (2018) asks local property owners to contribute 6 cents per \$100 of assessed value. Due to these limitations, NUSD and other school districts must work closely with city leaders to ensure the school district can levy the proper amount of property tax on the residences and when the school district can add another bond to the ballot. If introduced too soon, the monetary amount of the bond would be smaller because not enough of the current bonds have been paid down to create room for additional bond amounts.

If this is the case, why not introduce a parcel tax? A parcel tax is a tax on parcels of real property collected as part of a property tax bill. However, a few distinguishing characteristics from other options may deter some school districts from introducing a parcel tax:

- 1) *Voter Approval Threshold*: A parcel tax must be approved by two-thirds (67 percent), while a general obligation bond only needs 55 percent.
- 2) *Evaluation of Property Value*: Unlike property taxes, parcel taxes cannot be based on property value, unlike a general obligation bond, which is a fixed rate. In a state like California, where the supply of housing has shrunk, and the value of land has increased, this presents a more advantageous position for school districts as the bond amount can be paid down further, allowing a school district to introduce another school bond in the future. Additionally, since a parcel tax is not based on property value, it may not be accessible in the future for school districts to secure voter approval to raise the fixed amount versus having the amount levied on local property owners adjust automatically based on their property value. However, it should be noted that while school districts may have more success with a bond, the value of a property within a district may vary as some properties avoid being reassessed. For instance, if a property owner has not moved from their home (and is limited to a 2

percent increase per Proposition 13 (1978) or has a property in a trust, the amount owed by a property owner may be smaller compared to a newly purchased home.

- 3) *Permanent v. Temporary*: Unlike general obligation bonds, which exist until the bond amount has been paid, parcel taxes last until they are removed with another local ballot proposition. Some voters may feel more inclined to approve a temporary tax than a long-term one.

Due to these differences, some school districts, like NUSD, use general obligation bonds to finance their modernization projects.

Challenges Securing Financing Options

General Obligation Bonds: Debt Allowance and Tax Levy Limits

According to Brunner and Ruben (2001), and as proven by NUSD, school districts rely heavily on general obligation bonds to fund their facilities. Still, they are constrained by the law, which specifies that unified school districts cannot exceed 2.50 percent and have a tax rate levy limit of \$60 per \$100,000 of assessed value, further limiting a school district's borrowing capacity. The impact of these limitations is most evident in Measure L (2018), where local property owners are required to pay 6 cents per \$100,000 of assessed value. This amount cannot exceed the 2.50 percent limit, which poses a significant challenge for the district. As a result, school districts may struggle to introduce additional bonds with a higher monetary amount to fund the growing needs of its facilities when a bond has already been approved,

School Facilities Program

NUSD, like many other school districts, faces difficulties obtaining funding from the state to modernize its facilities. This is due to a lack of financing and slow disbursement of funds. The 2022 State Auditor's report reveals that the Office of Public School Construction has \$1.7 billion in outstanding requests and an estimated \$5.4 billion in modernization requests over the next five years. However, new requests have reached \$2.2 billion, and in 2020, the proposed school facilities bond failed to receive a majority vote due to economic pressure and declining enrollment. The Report found that school districts that applied to the program waited 2-3 years before receiving an allotment from the State Allocation Board, even though the Office of Public School Construction had already approved their applications. This wait time causes school districts to pay additional costs due to inflation. While examining NUSD, construction estimates from when an application was submitted to when it received funding increased, on average, 12 percent due to inflation. Furthermore, even when funds were disbursed, NUSD cited that it could take anywhere from 4-8 months to receive the funding, allowing more time for construction costs to escalate. While the Facilities Program can aid school districts, NUSD indicates that the long wait time for the program can negatively impact school districts waiting to receive funding, causing those school districts to cover increased construction costs.

Potential Solutions

Providing students with safe and functional schools is essential to ensure their learning and well-being. However, poorly maintained schools can adversely affect the health and academic outcomes of students, particularly those from low-income families and students of color. While modernizing school facilities is crucial, financing such projects is challenging. Traditionally, state or local governments have funded school facilities through bonds. However, recent public opinion regarding such funding has decreased, making it even more challenging to modernize

schools. Additionally, compounded with budgetary constraints this year and for at least the next three years, it is imperative to highlight potential solutions providing opportunities for school districts to enhance student achievement.

Increase the Debt Limit

This proposal aims to raise the indebtedness limit from 1.25 percent to 2.50 percent for elementary and high school districts and 1.75 percent to 3 percent for unified school and community college districts to provide schools with greater bond capacity to finance modernization projects. One of the most significant challenges NUSD faces is deciding when to introduce another general obligation bond. School districts are limited in the indebtedness they can impose on local property owners within their boundaries. It may take decades for school districts to lower their total indebtedness before introducing a new local general obligation bond ballot measure. This is especially difficult for school districts in low-income communities, as the cost of school construction and renovation increases with inflation. At the same time, property taxes are subject to a maximum 2 percent annual increase, as per Proposition 13 (1978). For example, if the assessed value of all taxable properties within a unified school district totaled \$600 million, a unified school district would be limited to 2.50 percent of that total. As a result, a school district could introduce a general obligation bond that could not exceed \$15 million. Although \$15 million may appear to be a significant sum, it may not be enough to update all the facilities within a district. Figures from NUSD indicate that renovating just one school site can range from \$5 million to \$40 million. Furthermore, if a family has put their home in a will or trust, the property's value cannot be adjusted to the current market value. While current law permits school districts to exceed their bonding capacity, the California Department of Education evaluates such requests on a case-by-case basis. This can present a barrier as the ability to exceed the indebtedness limit depends on California Department of Education approval.

To address this problem, this proposal seeks to increase the total indebtedness cap for all districts by 1.25 percent). In 2020, Proposition 13, in addition to other proposals within the measure, suggested a similar proposal increasing the indebtedness caps from 1.25 percent to 2 percent of the assessed value of all taxable properties within an elementary and high school district. It also aimed to raise the cap of the assessed value of all taxable properties within a high school and community college district from 2.50 percent to 4 percent. However, the proposal failed to get approval from voters in 2020.

Lower The Amount of Valued Assessed

This proposal would reduce the assessed value of elementary or high school districts by \$50,000 each. Lowering the assessed value would increase the amount paid by local homeowners but would help pay down the bond amount quickly.

Local communities can approve a certain amount of debt for their elementary, high school, unified, or community college district. However, there is a limit to the amount of money a respective district can levy property owners within their district. According to current law, the tax levy limit is not to exceed \$30 per \$100,000 for elementary or high school districts and \$60 per \$100,000 for unified school and community college districts. This system can create a situation where it may take a district several decades to pay down or off its total bond capacity.

To ease the ability for districts to introduce another general obligation bond to keep pace with school facility needs, they can lower the assessed value of taxable properties within their district from \$100,000 to \$50,000. For example, if the assessed value of a home in a unified school district is \$600,000. Accordingly, the maximum amount that the unified school district may levy is \$60 per \$50,000, resulting in that particular homeowner paying \$720 annually. This would allow districts to pay down their bonded capacity faster.

While this proposal would likely garner opposition from taxpayer organizations, it is essential to note that it does not raise taxes in itself. It is important to remember that the voters must approve every general bond. Notwithstanding this proposal, voters already approve bonds that levy a tax on themselves. Should this proposal be enacted and a bond appears on the ballot, voters can support or deny the measure.

Collective Purchasing: Statewide School Construction Cost

The NUSD correspondent proposed a solution allowing the state to negotiate construction costs for school districts that wish to renovate their facilities. This would be done on an annual basis in an attempt to reduce school modernization costs. This would reduce costs for individual school districts and address the issue of cost escalation.

The Statewide Technology Procurement Division within the Department of Technology currently conducts independent project oversight for state project acquisitions of information technology and telecommunications goods and services. The Statewide Technology Procurement Division consulting staff works closely with customers to ensure project proposals and plans are well thought out and indicate programmatic benefits. As part of this process, feasible alternatives address the identified needs and benefits consistent with statewide strategies, policies, and procedures. The Statewide Technology Procurement Division offers unique guidance to customers through the many challenges often encountered in state procurement projects. The Statewide Technology Procurement Division staff partners with departments to help plan and monitor projects and bring them to successful deployment. Consultants ensure that each project's scope, schedule, and costs are adequately defined, planned, and monitored.

Similarly, in 2019, The Education Technology Joint Powers Authority was established when Irvine Unified compared their request for proposals for purchasing goods and services to those of neighboring districts. Irvine Unified found that the process seemed "unnecessarily long, and the contracts were uneven" across the region." (Gifford, 2023). Other founding members include school employees from San Juan, San Ramon Valley, Fullerton, Clovis, El Dorado County, and Capistrano Unified districts. The Education Technology Joint Powers Authority, in 2023, demonstrated its purchasing power when it purchased a learning equipment system, saving the district \$40,000 and six months of administrative work (Gifford, 2023). The proposed solution seeks to assist school districts in reducing their expenses by establishing an authority responsible for negotiating the construction of multiple facility projects across the state. The California Department of Education or a joint power authority of interested school districts can create this authority. The proposal is based on the success of the Education Technology Joint Power Authority, which demonstrated that such an approach could provide school districts with more negotiating power and consistency in construction costs among neighboring districts. By adopting this approach, school districts can benefit from a collective bargaining system, enabling them to negotiate better deals and save money on construction projects.

Facilities Program: Cost-Sharing Adjustments For School Districts in Low Assessed Value Areas

This proposal seeks to modify the Facilities Program to allow the State Allocation Board to disperse additional funds beyond the 60 percent match to school districts in areas with all taxable properties.

The Office of Public School Construction provides grants for modernizing school buildings. The building must be at least 25 years old to be eligible for the grant, and the California Department of Education and the Department of General Services must approve the building plan. The school district applying for the grant must also be able to cover at least 40 percent of the total construction cost. Once a school district meets all the requirements, the State Allocation Board will finance a portion of the modernization project using general obligation bond funds. While every eligible school district can receive the grant, financially challenged school districts that cannot afford to cover 40 percent of their construction cost may struggle to do so. According to a State Auditor Report titled "School Facilities Program: California Needs Additional Funding and a More Equitable Approach for Modernizing Its School Facilities," financially disadvantaged school districts typically wait for around three years before receiving funding, whereas financially independent school districts can move forward with their projects without waiting. This is because the Facilities Program processes applications for non-health and safety projects on a first-come, first-served basis. The more dependent a school district is on State funding, the less likely it is to be able to move forward with its project until it receives State funding. On the other hand, financially independent school districts can reduce the State's match by financing beyond the 40 percent per match. The Facilities Program also offers financial hardship waivers, which remove the 40 percent match requirement. However, not every school district can meet the waiver requirements.

This proposal would provide the Facilities Program with more flexibility by allowing it to cover additional costs beyond its 60 percent match for school districts that are unable to qualify for a financial hardship waiver but are not financially dependent. This would ease the financial burden on school districts that cannot reach the 40 percent match and contribute less while allowing the State to contribute more to struggling school districts seeking to modernize.

CONCLUSION

While the Facilities Program was created to provide a State-funded mechanism to assist school districts in maintaining their school facilities, recent economic trends and challenges in implementing the Facilities Program, suggest that school districts must rely on other revenue sources besides the State. Poor facility conditions can negatively affect student outcomes, especially for low-income students and students of color. Older buildings need thermal control, adequate lighting, suitable roofs, and sufficient space for a conducive learning environment. Thermal comfort, acoustic quality, and lighting are crucial in student performance. Proper acoustic design, low background noise levels, and clear speech are essential for better learning outcomes. While the data from NUSD suggest that local bond funds, developer fees, and the State remain the most frequently used options from school districts, there has been a dramatic increase in the use of local bond funds to support modernization project in recent years. This finding is consistent with the challenges faced by the Facilities Program in securing consistent and stable funding. Due to the State's inability to secure a stable funding source, the solutions

proposed in this paper aim to provide remedies to school districts seeking to procure funding or resources at the local level.

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