



Proposition 55

Bonds to construct and modernize public education facilities

In March 2004, California voters will decide whether to approve a \$12.3 billion bond measure for the construction and modernization of public elementary, secondary, and higher education facilities. The amount includes \$10 billion for K–12 school repair and construction and \$2.3 billion for higher education.

The March proposition is the second of a two-part bond measure. Proposition 47, which passed in November 2002, provided \$13.05 billion (\$11.4 billion for K–12 and \$1.65 billion for higher education). The two-stage bond measure is the largest ever because the need for education facilities has become so great.

By December 2003, almost \$9.7 billion of Proposition 47 bond money for K–12 education had been allocated for 3,198 projects, providing classrooms and other facilities for more than 1.4 million pupils. About \$1.7 billion remains. Virtually all of the higher education bond money has also been allocated for projects.

The bond measure falls short of the five-year need

Money for upgrading and building new K–12 facilities comes primarily from general obligation (GO) bonds issued by the state (with majority voter approval) and from local school district matching funds. GO bonds, a form of borrowing, are a common way to fund state facilities, such as prisons, parks, water projects, office buildings, and railroads, because “these facilities provide services for many years and their large dollar costs can be difficult to pay all at once,” according to the Legislative Analyst’s Office (LAO).

The allocation of the state bond funds for public education depends upon a district’s demonstrated need, eligibility, and ability to provide a 50% match for new construction or 40% for modernization (except for “hardship” cases and for “critically overcrowded” schools when no match is required).

The match usually comes from local general obligation bonds with 55% or two-thirds approval from local voters, depending on the circumstances. In addition, districts sometimes levy fees on new commercial and residential development or hold special elections to assess some property owners within their boundaries.

Despite significant sums raised for school construction in recent years (\$20.1 billion for K–12 facilities over the past decade), districts need to construct new schools to house nearly 1 million pupils and repair and renovate schools for over 1 million more, according to the LAO. A December 2003 report by the Office of Public School Construction says more than \$16 billion in approved projects are already waiting for funding. The \$1.7 billion remaining

from Proposition 47 plus the \$10 billion from Proposition 55, if it passes, will fall about \$4.3 billion short of fulfilling this need.

Enrollment and age of facilities contribute to the need

The Department of Finance projects the K–12 student population will grow 2.8% from 2003 until 2007. The ongoing growth will contribute to a need for about 8,181 additional classrooms each year from 2002 through 2007, according to the California Department of Education (CDE) *Fact Book 2003*. Some areas of the state have grown rapidly and are in especially dire need of classrooms.

In addition, about 1.6 million students go to school in classrooms that are more than 25 years old and badly in need of renovation, according to the CDE report. Altogether 73% of the state’s classrooms are more than 25 years old. From 2002 through 2007, more than 8,000 classrooms will have to be modernized per year, the CDE says.

Further, schools in more than 45 districts throughout the state are “critically overcrowded,” some with densities in excess of 200% or 300% of CDE guidelines, according to CDE data. Almost half of these schools are in Los Angeles Unified School District. “Critically overcrowded” is defined as greater than 115 students per acre for elementary and middle schools and greater than 90 students per acre for junior high and high schools.

Finally, the nearly universal reduction of class sizes in K–3 increased the demand for more classrooms. And in 2002–03, almost a quarter of the state’s students were in schools with multitrack, year-round calendars to maximize their use of school facilities by accommodating more students.

The bond money would be divided four ways

The \$10 billion of Proposition 55 funds for K–12 schools, if approved, would be divided four ways (subject to change by the Legislature and governor):

- About 50% (\$5.26 billion) for new construction. The 50% district match applies. (Hardship cases, as defined by the CDE, are exempt from the match.) Up to \$300 million of these funds are available to charter schools.
- Almost 25% (\$2.25 billion) for modernization of existing school facilities with a 40% district match.
- About 25% (\$2.44 billion) for districts with schools that are “critically overcrowded.” The 50% district match applies.
- \$50 million to encourage projects that involve a joint use between a school district and another public agency, such as a city library.

The bond money for higher education would go to the University of California and California State University systems (\$690 million to each), with \$920 million targeted to community colleges.

Bond money adds to the state's debt

The cost of these bonds depends on interest rates and the time period over which they are repaid. If they are sold at 5.25% (the November 2003 rate) and repaid over 30 years, the cost would be about \$24.7 billion (\$12.3 billion in principal plus \$12.4 billion in interest), according to the LAO. However, considering inflation, when the \$24.7 billion is spread over 30 years, the cost is closer to \$15.4 billion, the LAO says, because the value of money decreases over time. The average payment would be about \$823 million per year, or about \$7 per household per year in today's dollars.

The \$12.3 billion would be in addition to about \$36 billion in outstanding General Fund bond debt, according to the LAO, increasing the portion of the state's budget dedicated to repaying the loan from an estimated 4.9% in 2005–06 to a peak of 5.3% in 2006–07. The rate would then decline. These estimates do not include the \$15 billion in state GO bonds (also on the March ballot), which if passed would help cover the state's existing budget deficit but would significantly increase the portion of the budget dedicated to repaying loans. Check www.lao.ca.gov for updates.

Opponents say California needs a new way to build schools

Opponents of Proposition 55 include state Republican Senator Thomas "Rico" Oller, the National Tax-Limitation Committee, and the 60-Plus Association.

They argue that state leaders should build schools without increasing California's debt, using money from the state's General Fund, thereby eliminating the need to pay \$12.4 billion in interest. "We don't need new debt or higher taxes," they argue. "We just need to tell Sacramento to make school construction a priority."

Although bonds are not taxes per se, they are repaid with tax dollars, opponents say, which means that the state must either cut services or increase taxes to repay this bond. In the current financial crisis, the state's credit rating is the worst in the nation, they say, making it difficult for the state treasurer to issue bonds already authorized and requiring the state to pay higher interest rates. In addition, opponents say, school construction in California is "plagued by waste, bureaucracy, and ridiculous government mandates."

Opponents also say that because of the requirement for matching funds, many school districts will not benefit from the bonds. In addition, they argue that specific funds set aside for critically overcrowded schools means schools in Los Angeles Unified School District will get more than their fair share.

Proponents say the measure will improve student achievement


Many individuals and organizations support Proposition 55 including the California Teachers Association, Californians for Higher Education, the California School Boards Association, the California State PTA, the California Chamber of Commerce, the League of Women Voters of California, the California Taxpayers Association, and the Congress of California Seniors.

Proponents say the bond measure would help improve safety, relieve overcrowding, and give students more access to technology and computers. They say studies confirm that a safer, less crowded learning environment helps improve student achievement and test scores. The money will be fairly distributed and will target areas where facilities are most needed, such as school districts with overcrowded schools and new and growing communities, they argue.

Supporters say the proposition also helps the state by building college classrooms and modernizing research facilities that help strengthen California's economy. And, they say, school construction will create thousands of new jobs. They say the proposition will not raise taxes and includes independent audits and cost controls that guard against waste and mismanagement.

California has an immediate need for the classrooms, which will benefit students for years to come, proponents argue. Long-term bond financing is appropriate, they say, much like mortgaging a house. If the bond is not passed, conditions at schools will only deteriorate, they say. "The longer we wait, the more expensive it will be."

Voters have a history of supporting school bonds

California voters have approved 16 of the 17 school bond measures in the last 21 years. Because of the way legislators wrote the measure, if the majority of voters reject Proposition 55 in March, they will be able to consider it again on the November 2004 ballot. 

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How can I find out more?

The text of the proposition and ballot arguments are on the website of the Office of the Secretary of State, www.ss.ca.gov. Updated information on the state's debt situation can be found at www.lao.ca.gov. The Office of Public School Construction's website is www.opsc.dgs.ca.gov. Proponents' arguments can be found at www.Yeson55.com. The website of the National Tax-Limitation Committee, an opponent, is www.limittaxes.org.



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