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PUBLIC DEBT ISSUED FOR K-12 EDUCATIONAL PURPOSES IN 2000

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With the passage of Proposition 98 in 1988, state law requires minimum expenditures for educational purposes, including capital outlay, repair and renovation, and deferred maintenance. In 1999-00 these expenditures were $25.3 billion. Other state expenditures in the form of teacher's retirements, bond payments, state lottery, and federal funds, for that budget year amounted to $10.3 billion.

This article reports on the use of debt for K-12 educational purposes by local agencies during calendar year 2000. The information on public debt issuance was derived from the California Debt and Investment Advisory Commission's (CDIAC) database and included all issuer-reported debt as of February 9, 2001. Examining debt issuance at the local school district level provides insight into the nature of school facilities financing in California. For example, a comparison between the timing and amount of debt issued and demographic and economic factors, such as household income, average age, residential property values, and school bond initiatives, may help us better understand a local agency's decision to issue debt for school purposes.

The Scale of Need

California has three types of public school districts: elementary (typically kindergarten through 8th grade), high school (typically 9th through 12th), and unified (typically kindergarten through 12th). Districts sometimes merge or consolidate, changing the number of districts from year to year. The California Department of Education (CDE), Educational Demographics Unit reports that California had 1,054 public school districts in 1999-00 and a statewide enrollment of 5,951,612 students.

These 1,054 districts contained a total of 8,563 schools and 235 state-recognized charter schools, representing over 62,000 public school buildings with an asset value of approximately $50 billion. Roughly 60 percent of these buildings are over 25 years old.

The California Department of Finance estimates that the State will add 285,000 new K-12 students between 1998 and 2003, raising the number of California students to over 6 million. Population growth and the number of school buildings in need of repair, renovation, and modernization place exceptional demands upon the state's public resources. While Californians spent more than $21 billion on school facilities from 1986 to 1996, the need for additional funding continues to grow.

The CDE's School Facilities Planning Division estimates new construction costs required to keep pace with the additional student load between 1998 and 2003 to be $5.8 billion. The estimated cost of modernization and deferred maintenance of existing school buildings for the same period is $8.1 billion and $2.6 billion, respectively.

CDE estimates that the State needs 13,682 more classrooms to accomodate the additional students expected to enroll by 2003. Based on a ratio of 20 classrooms per school in K-8 and 65 classrooms per school in grades 9-12, that number of classrooms equates to 434 schools that need to be built before 2003.

School Facilities Financing: 1986 to 1996

The source of the $21 billion committed to facilities development between 1986 and 1996 was distributed between state and local sources. State bonds contributed $9.8 billion, while local general obligation bonds added another $5.9 billion. Developer fees paid to local school districts amounted to $2.5 billion. The balance was made up of upgrades made to accommodate multi-track year-round schedules ($1.2 billion), deferred maintenance ($1 billion), and special local taxes ($800 million).

Local Financing for Schools: 1996 to 2000

Table 1 provides a summary of local school facilities financing measures that passed since 1996. Local voters approved 92 general obligation bonds, authorizing $4.45 billion for school facilities financing. In addition, local voters authorized 8 measures establishing special taxes or assessments that were dedicated to school facilities financing.

Table 1

Election Results for Local School Measures
1996 to 2000

Election Date	Number and Type of Debt/Tax Approved	Amount
Primary Election March 26, 1996	5 G. O. bonds	$134 million
General Election November 5, 1996	11 G. O. bonds	$245 million
	1 Special Tax	$22.50 per parcel for 40 years
	1 Local Benefit Assessment (Prop 218 vote)	$30 per parcel (continuation)
Primary Election June 2, 1998	21 G.O. bonds	$316 million
General Election November 3, 1998	20 G. O. bonds	$2 billion
	1 Special Tax	$20 semi-annual for 4 years
Primary Election March 7, 2000	12 G. O. bonds	$753 million
	1 Special Tax – Improvement bond	$7 million
General Election November 7, 2000	23 G. O. bonds	$1 billion
	4 Special Taxes	Varied

Source: CDIAC Election Reports 1986 through 2000.

A total of 41 counties issued debt for educational purposes during 2000. Table 3 breaks the local debt issued into geographic regions. Los Angeles includes debt issued by the counties of Los Angeles, Orange, and Ventura. The San Francisco Bay Area includes the counties of Alameda, Contra Costa, Marin, San Mateo, Santa Clara, Solono, and Sonoma. The San Diego region includes Imperial and San Diego counties. The Sacramento Valley includes Butte, Glenn, Placer, Sacramento, Sutter, Tehema, and Yolo. The Inland Empire region includes only Riverside and San Bernardino counties. The Central Coast includes Monterey, San Luis Obispo, Santa Barbara, and Santa Cruz. The San Joaquin Valley includes the counties of Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare. The Moutain region includes the counties of Calaveras, Inyo, Lassen, Modoc, Mono, and Plumas. The North Coast region includes Humboldt and Medocino counties.

Debt Issued for K-12 Educational Purposes in 2000

Table 1 reveals the extent to which local voters are willing to encumber additional responsibility for school facilities construction. Issuing debt, in most cases, is contingent on voter approval. Table 2 reports on the type and amount of debt issued for K-12 schools in 2000. Because the issuance of debt can be delayed for many reasons, there is not a one-to-one relationship between election results and debt issuance. In addition, Table 2 includes debt that may be issued by a local agency without a vote, such as certificates of participation. It also includes conduit and pooled financings that aggregate the financing needs of many agencies through one debt issue. Table 2, as a result, may provide a more accurate picture of local investment in K-12 school construction.

Table 2

Local Debt Issued School Purposes 2000
Dollars in Millions

Type Issued	Number	Amount
General Obligation Bonds	141	$2,529
Certificate of Participation/Leases	34	339
Limited Term Obligation Bonds	11	104
Conduit Revenue Bonds	2	47
Public Lease Revenue Bonds	2	24
Revenue Bonds (Pools)	2	21
Other	2	4
Total	194	$3,118

Source: CDIAC

Table 3

Regional Distribution
School Debt Issued 2000
Dollars in Millions

Region	Number of Issues	Amount
Los Angeles	48	$1,277
S.F. Bay Area	47	818
San Diego	12	234
Sacramento Valley	20	219
Inland Empire	13	165
Central Coast	14	135
San Joaquin Valley	20	97
Mountain	8	20
North Coast	4	10
Multiple Issuers	8	143
Total	**194**	**$3,118**

Source: CDIAC

Table 4 provides a summary of the type of debt issued by each region. The distribution of debt differed between regions, particularly with respect to general obligation bonds and certificates of participation. The latter form of debt can be issued without voter approval. Higher property values and median income levels may help to explain why some regions felt comfortable enough to seek voter approval prior to issuing debt and others did not.

Table 4

Amount and Percentage of
Debt Issued By Type of Debt 2000

Dollars in Millions

Region	GO	COPL	LTOB	CRB	PLRB	RB	Other	Total*
Los Angeles	$992 (77.7%)	$192 (15.1%)	$55 (4.3%)		$24 (1.9%)	$14 (1.1%)		$1,277 (100%)
S.F. Bay Area	770 (94.2)	48 (5.8)						818 (100)
San Diego	206 (88.1)	24 (10.3)	4 (1.6)					234 (100)
Sacramento Valley	183 (83.4)	20 (9.1)	16 (7.5)					219 (100)
Inland Empire	137 (83.0)	6 (3.8)	15 (8.8)			7 (4.4)		165 (100)
Central Coast	112 (83.0)	23 (7.0)						135 (100)
San Joaquin Valley	43 (43.9)	38 (39.0)	14 (14.8)				$2 (2.3)	97 (100)
Mountain	19 (93.5)	1 (6.5)						20 (100)
North Coast	9 (92.0)	1 (8.0)						10 (100)
Multiple Issuers	59 (41.4)	35 (24.7)		$47 (32.7)			2 (1.3)	143 (100)
Total	***$2,529 (81.1%)***	***$389 (12.5%)***	***$104 (3.3%)***	***$47 (1.5%)***	***$24 (0.8%)***	***$21 (0.7%)***	***$4 (0.1)***	***$3,117 (100%)***

GO - General Obligation Bonds
COPL - Certificates of Participation/Leases
LTOB - Limited Term Obligation Bonds
CRB - Conduit Revenue Bonds (Private Obligor)
PLRB - Public Lease Revenue Bonds
RB - Revenue Bonds

Source: CDIAC
Columns may not total due to rounding

Future Analysis of Public Debt Issued for K-12 Schools

Table 4 helps to demonstrate the variability in debt issued by local agencies for K-12 schools. Both the type and amount varied between regions. Understanding what factors may have played a part in the decision to issue debt and the types of debt issued could be helpful to issuers and taxpayers alike. A more comprehensive analysis should consider the demographic, political, and economic forces that contribute to these decisions.

This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at http://www.treasurer.ca.gov/stocda.htm.