

K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued – 2019 Update

In January 2014, the California Debt and Investment Advisory Commission (CDIAC) began reporting on the amount of general obligation (GO) bond authority approved by voters for California school and community college districts as well as the amount of remaining unissued authorization. In the first report, CDIAC found over \$90 billion of GO bond authority had been approved by voters between November 2002 and November 2013 yet \$37.5 billion of that authority had not been issued.¹ In this update, CDIAC includes the results of the 2018 elections as well as all K-14 GO bond authority approved in 2001 and before November 2002. The purpose of including the earlier bond elections is to provide a clearer picture of school and community college district use of a lower voter approval threshold effective with the passage of Proposition 39 in November 2000.

The new data includes 50 elections approved in 2001 totaling \$4.4 billion, 83

elections approved in February, March and June of 2002 adding \$6.1 billion to the previous amount of \$9.45 billion, and 125 elections approved in 2018 authorizing over \$14 billion.² Overall, since 2001, voters have authorized over \$158 billion of local GO bond authority throughout the state and, as of the beginning of 2019, \$59.8 billion (37.8%) has not been issued (Figure 1).

Election data was cross-referenced with all school and community college district GO debt issuance reported to CDIAC under Government Code 8855(j) from March 2001 through December 31, 2018 and stored in CDIAC's California Debt Database – over 4,800 issues.³ Every debt issue in the data set was reviewed by a CDIAC researcher and either coded to an approved election authority from the election dataset or determined to not reduce election authority and not assigned to an election. CDIAC staff utilize official statements from the State Treasurer's Debt Watch database and the Electronic Municipal Market Access (EMMA) system operated by the Municipal Securities Rule-making Board (MSRB) to verify the proper coding of the bond issue when the CDIAC data did not lead to a conclusive determination. Included in the data set are elections approved for 683 K-12 school districts and 69 community college districts. Based on the

number of active districts currently listed by the California Department of Education and the California Community Colleges Chancellor's Office, 280 K-12 school districts (30%) and four community college districts (6%) have not received voter approval to issue GO bonds within the reporting period.⁴

California school and community college districts may construct or modernize school facilities using general obligation bonds repaid from local property tax collections. K-14 districts can ask voters within their jurisdiction for the authority to issue GO bonds under Proposition 46 (1986) or Proposition 39 (2000).⁵ If approved by voters, property taxes are collected in an amount without limitation needed to pay the principal and interest due on the GO bonds each year.

Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act," was approved in November 2000 amending portions of the California Constitution to provide school districts with an alternate legal path for obtaining GO bond authority with just 55 percent voter approval. Prior to its approval, school districts were required to obtain at least two-thirds voter approval for GO bond authority. But as a tradeoff, bonds issued under Proposition 39 must adhere to specific tax rate limits that influence the size and timing of the bonds issued (Figure 2).

¹ See "K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued," CDIAC No. 14-01, www.treasurer.ca.gov/cdiac/publications/k14.pdf.

² The election data is obtained through direct contact with county clerk/voter registrar offices or internet search. Among the internet sources used by CDIAC are the websites of the League of Women Voters, the County Clerk/Voter Registrar Offices, the Secretary of State, Ballotpedia, and local newspapers.

³ This amount also includes duplicate records created to separate mixed series into individual elections. The GO bond dataset includes refundings and bond anticipation notes (BANs). Refundings were counted against the district's election authority if they refunded a non-GO debt (e.g. certificates of participation, lease obligations), otherwise they were not. BANs were counted against the election authority only if the GO bond planned to repay the BAN had not yet been issued. BANs counted in the previous data were reviewed for subsequent redemption by a GO bond issuance and updated as appropriate. Using the BAN principal at issue may understate the amount of authority used when the BAN is taken out by the GO bond because it does not include accreted interest, a common BAN feature.

⁴ The California Department of Education's school district directory lists 944 active elementary, high school and unified school districts. The California Community Colleges Chancellor's Office lists 72 community college districts. Included in the data set are 20 elections for K-14 districts which have merged and/or closed since receiving GO bond approval.

⁵ In June 1986, Proposition 46 restored the authority to issue GO bonds to counties, cities, and school districts and included a limit on the amount of debt that could be issued.

FIGURE 1

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT
 VOTER APPROVED GO AUTHORITY VS. ISSUANCE
 (REPORTED TO CDIAC AS OF FEBRUARY 2019)

ELECTION YEAR	NO. OF APPROVED ELECTIONS	VOTER APPROVED G.O. AUTHORITY (MILLIONS)	G.O. AUTHORITY ISSUED (MILLIONS)	UNISSUED G.O. AUTHORITY* (MILLIONS)	PERCENT UNISSUED
2001	50	\$4,413	\$4,387	\$26	0.6%
2002	151	15,567	15,477	90	0.6
2003	11	1,553	1,538	15	1.0
2004	112	11,561	11,285	276	2.4
2005	35	6,294	5,846	448	7.1
2006	93	10,301	8,887	1,414	13.7
2007	11	1,253	412	841	67.1
2008	142	28,001	16,527	11,474	41.0
2009	2	69	69	0	0.0
2010	62	5,015	4,410	605	12.1
2011	7	981	943	38	3.9
2012	116	15,287	11,003	4,283	28.0
2013	8	330	299	31	9.3
2014	127	12,598	7,678	4,920	39.1
2015	9	1,143	392	751	65.7
2016	219	29,641	8,751	20,891	70.5
2017	2	155	30	125	80.6
2018	125	14,178	597	13,581	95.8
TOTAL	1,282	\$158,339	\$98,529	\$59,809	37.8%

*Amounts may not add due to rounding.

Source: CDIAC 2019

Because of the lower threshold for voter approval, the vast majority of California school and community college districts ask for GO bond authority through elections held under Proposition 39 (Figure 3). Following its passage in November 2000, K-14 districts began presenting ballot measures seeking 55 percent voter approval for GO bond authority by March 2001. Under Proposition 39, bond elections may be held on the same day as statewide general, primary, or special elections, or at regularly scheduled local elections; therefore, most school bond elections are held in even numbered years. This

trend is evident in Figure 3 which shows the number of GO bond authorizations approved during even year elections. Since 2001, 95% of GO bond elections have been approved under Proposition 39.

The more recent GO bond authorizations have the greatest percentage of unissued bond authority because districts issue their bonds over a number of years following the election. Factors that affect the timing of the issuance of school district GO bonds include the facility construction schedule, bond market factors, and availability of matching funds

FIGURE 2

SCHOOL GO AUTHORITY COMPARISON

PROPOSITION 46

- Two-thirds voter approval.
- 2.5% Assessed Valuation (AV) Debt Limit for Unified School Districts, Community College Districts
- 1.25% AV Debt Limit for Elementary School Districts, High School Districts

PROPOSITION 39

- Fifty-five (55) percent voter approval.
- Proposition 46 AV Debt Limits (above).
- \$30 Tax Rate Limit per \$100,000 of district assessed valuation (AV) for Elementary School Districts, High School Districts.
- \$60 Tax Rate Limit per \$100,000 of AV for Unified School Districts.
- \$25 Tax Rate Limit per \$100,000 of AV for Community College Districts.
- Project specificity in ballot initiative.
- Annual performance and financial audits.
- Citizen's oversight committee.

under the State Facility Program, among others.⁶ One factor, however, that is apparent in the data is the effect actual assessed value (AV) growth rates have on the ability of districts to issue under existing authorizations.

Districts that have experienced negative or flat AV growth must wait to issue new bonds under existing authorizations until AVs rise to a level that will allow the district to project tax rates for the issuance that will stay within the Proposition 39 limitations and generate the necessary tax revenue to service the debt (Figure 2).⁷ The data shows

⁶ A State funding program administered by the Office of Public School Construction. See also SB 50 (Greene), Chapter 407, Statutes of 1998.

⁷ See "Measuring K-14 Property Tax Rates Against Proposition 39 Limits," CDIAC No. 17.06 www.treasurer.ca.gov/cdiac/publications/issue-brief/2017/17-06.pdf

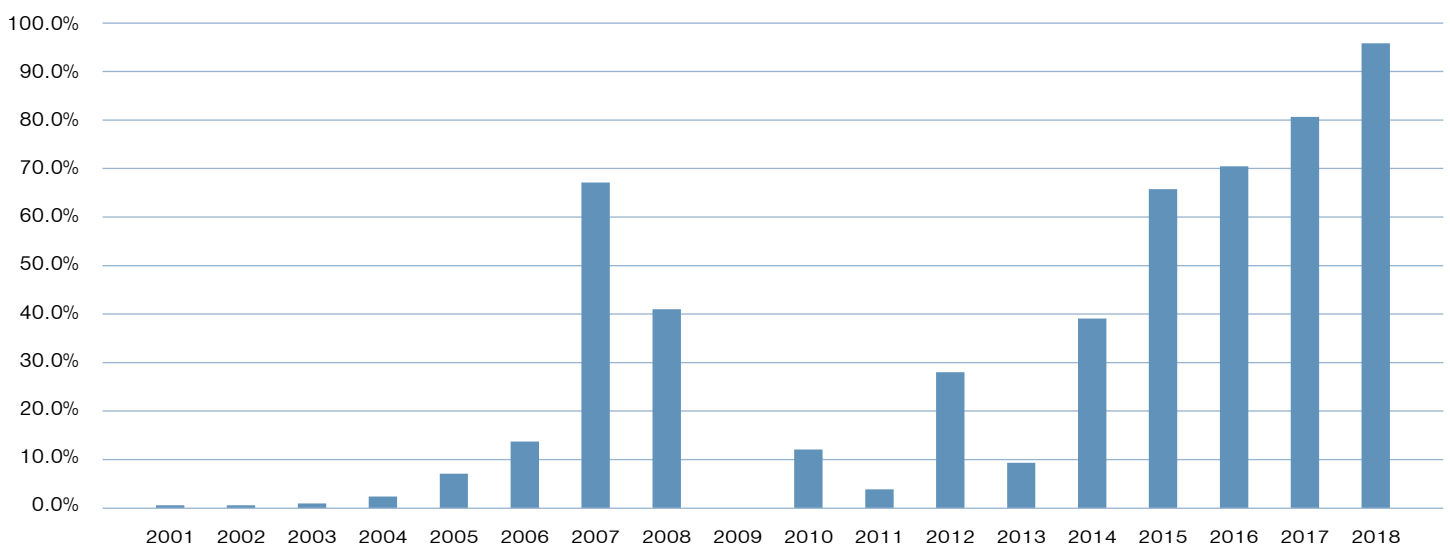
FIGURE 3
 CALIFORNIA SCHOOL AND
 COMMUNITY COLLEGE DISTRICT,
 GO BOND ELECTIONS:
 PROP 46 VS. PROP 39

ELECTION YEAR	PROP 46 (2/3)	PROP 39 (55%)	% OF PROP 39 ELECTIONS
2001	22	28	56%
2002	6	145	96
2003	1	10	91
2004	2	110	98
2005	4	31	89
2006	2	91	98
2007	4	7	64
2008	3	139	98
2009	-	2	100
2010	1	61	98
2011	-	7	100
2012	1	115	99
2013	1	7	88
2014	1	126	99
2015	2	7	78
2016	8	211	96
2017	-	2	100
2018	4	121	97
TOTAL	62	1,220	95%

a relatively high percentage of unissued authority for bond authorizations approved in 2007 and 2008 when California began experiencing successive years of low or negative AV growth during the Great Recession (Figure 4). Many of the districts with unissued authority from 2008 are in communities where AV has not grown at the rate and level projected when the districts put the bond measures on the ballot. This can be attributed to geographic unevenness of the recovery, overly optimistic AV growth projections, or both.

Due to the complexity of factors affecting districts' ability to issue GO bonds, a dollar of unissued authority does not equate to a dollar available to build or remodel schools in the near future. This report provides an update to the volume of authorized but unissued school and community college district GO bonds, but it is not an assessment of the current ability of districts to issue GO bonds.

FIGURE 4
 CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT G.O. BOND AUTHORITY, PERCENTAGE UNISSUED BY ELECTION YEAR



Source: CDIAC 2019