

K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued – 2016 Update

In 2013 the California Debt and Investment Advisory Commission (CDIAC) undertook research to determine the amount of general obligation (GO) bond authority that had been granted by voters to California school and community college districts as well as the amount of unissued authorization.¹ In its report on this research CDIAC concluded that over \$90 billion of GO bond authority had been approved by voters between November 2002 and November 2013. Of this \$90 billion, \$37.5 billion in voter authority had not been issued. Since the initial report was published voters have approved additional school and community college GO bonds. This report updates the 2013 CDIAC report with the results of these bond elections and the resultant bond issuance activity that occurred in 2014 and 2015.

CDIAC concludes that between November 2002 and November 2015 voters have provided school and community college districts with over \$103 billion of GO bond authority, an increase of \$13.1 billion since the 2013 study. Of this amount, \$40 billion has not been issued (Figure 1).

General obligation bonds, the primary financing tool used by California school and community college districts to construct or

FIGURE 1

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT VOTER APPROVED GO AUTHORITY VS. ISSUANCE, (REPORTED TO CDIAC AS OF 12/01/2015)

ELECTION YEAR	NUMBER OF APPROVED ELECTIONS	VOTER APPROVED G.O. AUTHORITY (MILLIONS)	G.O. AUTHORITY ISSUED (MILLIONS)	UNISSUED G.O. AUTHORITY (MILLIONS)	PERCENT UNISSUED
2002 (a)	83	\$9,451	\$9,357	\$95	1.0%
2003	11	1,553	1,538	15	1.0
2004	112	11,561	11,137	425	3.7
2005	35	6,294	5,544	750	11.9
2006	94	10,319	8,208	2,111	20.5
2007	11	1,253	351	903	72.0
2008	142	28,001	12,574	15,427	55.1
2009	2	69	69	0	0.0
2010	62	5,015	3,734	1,281	25.5
2011	7	981	602	379	38.6
2012	116	15,286	6,633	8,653	56.6
2013	8	330	184	145	44.0
2014	126	12,022	3,262	8,760	72.9
2015	9	1,144	0	1,144	100.0
TOTAL	818	\$103,279	\$63,192	\$40,086	38.8%

(a) Includes November 2002 approved elections only. At the March 2002 election, 65 K-14 GO bond elections were approved for just over \$6 billion.

Source: CDIAC 2015

modernize school facilities, are repaid from local property tax collections. In California, voters authorize the collection of taxes above the Constitutional limit in an amount needed to pay principal and interest due on the GO bonds each year.

School and community college districts can ask voters for the authority to issue GO bonds under Proposition 46 (1986) or

Proposition 39 (2000).² Because of the lower threshold for approval, the vast majority of the California school and community college bond issuance authority is granted by voters through elections under Proposition 39 (Figure 2).³ But as a tradeoff, bonds issued under Proposition 39 must adhere to specific tax limits that influences the size and timing of the bonds issued.

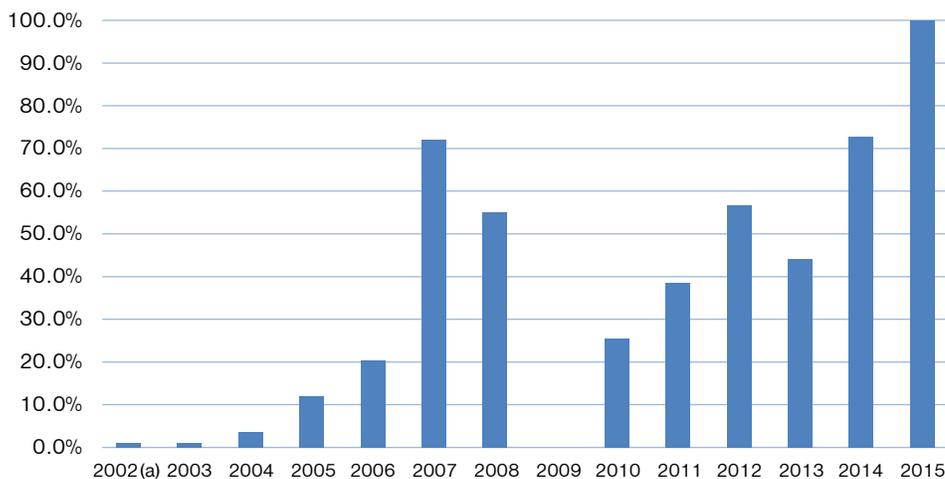
¹ CDIAC No. 14-01, K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued www.treasurer.ca.gov/cdiac/publications/k14.pdf

² 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 new and outstanding debt equal to 2.5 percent of property assessed valuation (AV) for unified school districts and community college districts. The limit is 1.25 percent of AV for elementary and high school districts.

³ Of the 818 K-14 bond elections approved by voters between November 2002 and November 2015, 801 (97.9 percent) were approved under Proposition 39.

FIGURE 2**SCHOOL GO AUTHORITY COMPARISON**

PROPOSITION 46	<ul style="list-style-type: none"> • Two-thirds voter approval.
PROPOSITION 39	<ul style="list-style-type: none"> • Fifty-five (55) percent voter approval • Limits the total of all bonds issued under any single bond measure to an amount that requires taxes of no more than \$30 per year per \$100,000 of district AV to pay the principal and interest on the bonds. For unified school districts, the limit is \$60, and for community college districts it is \$25. In addition to Proposition 46 AV limits.

FIGURE 3**CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT G.O. BOND AUTHORITY PERCENTAGE UNISSUED BY ELECTION YEAR**

(a) Includes November 2002 approved elections only.

Source: CDIAC 2015

CDIAC updated its data set of all approved school and community college GO bond elections to include elections from November 2002 through November 2015 – 818 elections total – an increase of 137 new elections.⁴ This election data was cross referenced with all school and community college district GO debt issuance that was reported to CDIAC under Government Code 8855(j) from November 1, 2002 to December 1, 2015 and stored in CDIAC’s California Debt Issuance Database – approximately \$119 billion in 3,500 issues.⁵

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 utilized official statements from CDIAC’s internal bond document 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 determina-

tion. Included in the data set are a total of 623 school and community college districts, 66 of these districts did not have GO bond elections included in the previous data set. CDIAC researchers found that 394 districts (39%) have not received any voter approval to issue GO bonds during the thirteen year reporting period.⁶

Under Proposition 39, bond elections may only 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 1 where research indicates that 90% of GO authorization was approved during even year elections.

In addition to the availability of tax revenue to service the debt, other factors affect the timing of the issuance of school district GO bonds including the facility construction schedule, bond market factors, voter sentiment and availability of matching funds under the State Facilities Program, to name a few. Resultantly, districts may issue their bonds for a number of years following the election depending on the complexity and combination of factors. The data continues to show a marked jump in the percentage of the unissued authority post 2007 (Figure 3). California experienced successive years of property value declines beginning in 2007 and has only recently seen property values begin to regain pre-Recession levels.

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 article 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.

⁴ 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.

⁵ 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 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.

⁶ The California Department of Education’s school district directory lists 946 elementary, high school and unified school districts. The California Community Colleges Chancellor’s Office lists 71 community college districts.