

K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued – 2017 Update

In January 2016, the California Debt and Investment Advisory Commission (CDIAC) updated its report on 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. At that time CDIAC concluded that over \$103 billion of GO bond authority had been approved by voters between November 2002 and November 2015. Of this \$103 billion, \$40 billion in voter authority had not been issued. Since the publication of that report voters have approved additional school and community college GO bonds during the 2016 Primary and General elections. This report provides the results of these bond elections and the resultant bond issuance activity that occurred in 2016.

CDIAC concludes that from November 2002 through November 2016 voters have provided school and community college districts with over \$133 billion of GO bond authority, an increase of \$30 billion since last year's update. Of this amount, \$64 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 modernize school facilities, are repaid from local property tax collections. In California,

FIGURE 1

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT VOTER APPROVED GO AUTHORITY VS. ISSUANCE, (REPORTED TO CDIAC AS OF 12/31/2016)

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	11,232	330	2.9
2005	35	6,294	5,683	611	9.7
2006	94	10,319	8,690	1,629	15.8
2007	11	1,253	362	891	71.1
2008	142	28,001	14,109	13,891	49.6
2009	2	69	69	0	0.0
2010	62	5,015	4,180	835	16.6
2011	7	981	901	80	8.2
2012	116	15,286	7,940	7,346	48.1
2013	8	330	235	95	28.8
2014	128	12,771	4,479	8,292	64.9
2015	9	1,143	225	918	80.3
2016	215	29,544	1,016	28,529	96.6
TOTAL	1,035	\$133,571	\$70,014	\$63,556	47.6%

(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 2017

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). 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). 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.

CDIAC updated its data set of all approved school and community college GO bond authorizations covering elections from November 2002 through November 2016 – totaling 1,035 approved ballot measures. For the 2016 elections (Primary and General),

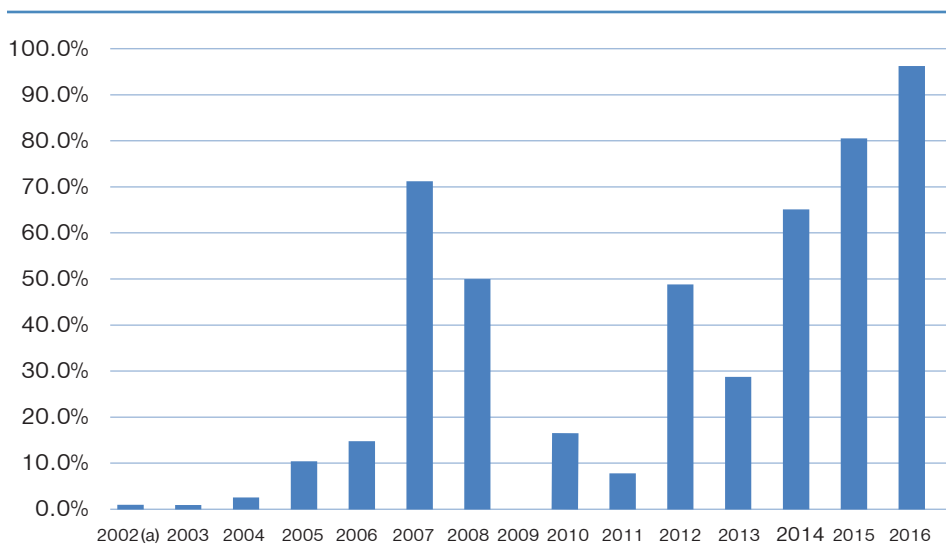
¹ CDIAC No. 16-01, K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued – 2016 Update <http://www.treasurer.ca.gov/cdiac/publications/k14update.pdf>

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 1035 K-14 bond elections approved by voters between November 2002 and November 2016, 1008 (97.4 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. • Requires project specificity in ballot initiative, annual audits, and citizen oversight.

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 2017

there were 215 K-14 district GO bond measures approved totaling over \$29.5 billion of authority surpassing the previous high of \$28 billion authorized in 2008. 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 January 2003 to December 31, 2016 and stored in CDIAC's California Debt Issuance Database – approximately \$132 billion in 3,900 issues. 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 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 determina-

tion. Included in the data set are a total of 691 school and community college districts, 78 of these districts did not have GO bond elections included in the previous data set. CDIAC researchers found that 254 districts (27%) have not received any voter approval to issue GO bonds during the fourteen 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 still 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 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 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 945 active elementary, high school and unified school districts. The California Community Colleges Chancellor's Office lists 71 community college districts.