



CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued – Extended 2023 Update

PART I: NEW GENERAL OBLIGATION AUTHORITY AND ISSUANCE IN 2022

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 (K-14) districts as well as the amount of remaining unissued authority for those districts. In the first report, CDIAC identified over \$90 billion of K-14 GO bond authority that had been approved by voters between November 2002 and November 2013. By 2014, \$37.5 billion of this GO authority had yet to be issued.² Since the initial report, CDIAC has continued to annually report on the amount of K-14 GO bond authorization approved by voters, resultant bond issuance activity, and the amount of K-14 GO bond authorization that remains unissued. This year's report has been expanded to include an in-depth discussion about important factors that have led to large amounts of GO authority obtained by K-14 districts in 2008 to remain unissued.

Figure 1

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT
VOTER APPROVED G.O. AUTHORITY VS. ISSUANCE PER ELECTION YEAR
(REPORTED TO CDIAC AS OF 01/31/2023)

ELECTION YEAR ^(a)	NUMBER OF APPROVED ELECTIONS	VOTER APPROVED G.O. AUTHORITY (MILLIONS)	G.O. AUTHORITY ISSUED (MILLIONS)	UNISSUED G.O. AUTHORITY ^(b) (MILLIONS)	% UNISSUED
2001 ¹	50	\$4,413	\$4,387	\$26	0.6%
2002	151	15,567	15,489	77	0.5
2003	11	1,553	1,538	15	1.0
2004	112	11,561	11,547	14	0.1
2005	35	6,294	6,099	194	3.1
2006	93	10,301	9,267	1,034	10.0
2007	11	1,253	576	678	54.1
2008	142	28,001	20,226	7,775	27.8
2009	2	69	69	0	0.0
2010	62	5,015	4,716	299	6.0
2011	7	981	981	0	0.0
2012	116	15,287	13,728	1,559	10.2
2013	8	330	327	3	0.8
2014	127	12,598	11,103	1,495	11.9
2015	9	1,143	862	281	24.6
2016	219	29,641	20,656	8,985	30.3
2017	2	155	96	59	38.1
2018	128	17,865	10,755	7,110	39.8
2019	-	0	0	0	-
2020	92	18,793	4,085	14,707	78.3
2021	0	0	0	0	-
2022	86	22,198	186	22,012	99.2
TOTAL	1,463	\$203,017	\$129,127	\$66,322	32.7%

(a) Calendar year: even years include both Primary and General election results; odd years include locally held elections during the year.

(b) Amounts may not add due to rounding.

Source: Original CDIAC analysis, last updated March 2023

¹ Calendar year 2001 includes data from March 1 through December 31 of that year to correspond with the first elections where bond measures were approved through Proposition 39.

² "K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued," *California Debt and Investment Advisory Commission*, 1, Published January 2014, Accessed February 11, 2021, www.treasurer.ca.gov/cdiac/publications/k14.pdf.

In 2022, California voters approved 86 new GO bond measures for K-14 districts, which were worth a total of over \$22 billion. Since March 2001, voters have authorized over \$203 billion of local K-14 GO authority throughout the state.³ Of that total, over \$66 billion – almost one-third of the total K-14 GO authorization – has yet to be issued (Figure 1).

This report relies on K-14 GO bond issuance information reported to CDIAC under Government Code Section 8855(j) from March 2001 through December 31, 2022, which was cross-referenced with K-14 GO bond elections approved from 2001 through 2022. The cross-referencing process was validated by review of official statements that are required to be submitted to CDIAC under the same Government Code section.

Of the active school and community college districts in California, 249 K-12 school districts (26.5%)⁴ and five community college districts (6.8%)⁵ have not attained voter approval to issue GO bonds since 2001.⁶

California school and community college districts may construct or modernize school facilities using GO bonds repaid with local ad valorem 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).⁷ If approved by voters, property taxes can be collected to pay the principal and interest due on the GO bonds.

Proposition 39, the “Smaller Classes, Safer Schools and Financial Accountability Act,” was approved in November 2000. Proposition 39 amends portions of the California Constitution to provide school districts with an alternate legal path for obtaining GO bond authority with just 55% voter ap-

proval. Prior to the approval of Proposition 39, an increase in GO bond authority for a school district required at least two-thirds voter approval. GO bonds issued under Proposition 39 must adhere to specific tax rate limits as well as additional accountability requirements (See Figure 2). For example, Proposition 39 places limitations on a district’s issuance of debt by capping the tax rate of assessed valuation (AV) of property in the district that is used to estimate the repayment of debt issued under the approved GO bond measure. To issue bonds, elementary and high school districts that have obtained authority to issue GO bonds through Proposition 39 have a limit of \$30 per year per \$100,000 of the district’s AV. For unified school districts, the limit is \$60 per year per \$100,000 in AV, and for community college districts the limit is \$25 per year per \$100,000 in AV. As a district’s ability to project a tax rate to support the issuance of GO debt is based on the property values within district boundaries, the district

is reliant on stable or accelerating growth in property values to allow for issuance of debt that uses that source of GO authority.

Due to 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 rather than Proposition 46. Since 2001, 96% of K-14 GO bond elections have been approved under Proposition 39 (Figure 3). Following its passage in November 2000, K-14 districts began presenting ballot measures to local voters seeking 55% approval by March 2001.

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. This causes most school GO bond elections to be held in even-numbered years. Of the 1,463 school bond measures approved by voters since 2001, 1,328 (91%) have been in elections in even-numbered years (Figure 3).

Figure 2
SCHOOL G.O. 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 per \$100,000 of district assessed valuation (AV) for Elementary School Districts, High School Districts. • \$60 Tax Rate per \$100,000 of AV for Unified School Districts. • \$25 Tax Rate per \$100,000 of AV for Community College Districts. • Project specificity in ballot initiative. • Annual performance and financial audits. • Citizen's oversight committee.

³ It is important to note that in the 2019 annual report, CDIAC expanded the authorized but unissued data set to include K-14 GO bond authority approved by voters in 2001 and elections held in 2002 prior to November, www.treasurer.ca.gov/cdiac/publications/k14update-2019.pdf.

⁴ The California Department of Education’s school district directory lists 939 active elementary, high school, and unified school districts. Source: “California School Directory,” California Department of Education, Accessed February 16, 2023, www.cde.ca.gov/schools/directory.

⁵ The California Community Colleges Chancellor’s Office (CCCCO) reports 73 active community college districts operating in California. This was confirmed with a CCCCCO representative in March 2021 and reaffirmed online in February 2023.

⁶ Included in the dataset are 18 elections for 14 K-14 districts that have merged and/or closed since receiving voter approval of GO bond authority.

⁷ 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 3

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT G.O. BOND ELECTIONS USING PROP 46 VS. PROP 39

ELECTION YEAR	PROP 46 2/3	PROP 39 55%	PERCENTAGE 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	124	97
2019	-	-	-
2020	1	91	99
2021	-	-	-
2022	-	86	100
Odd Year	34	101	75
Even Year	29	1,299	98
TOTAL	63	1,400	96%
Odd Year Elections		135	9%
Even Year Elections		1,328	91%
TOTAL		1,463	

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

A deeper discussion of the factors that affect a district's ability to issue GO bonds, and specifically those that may have contributed to the large amount of unissued 2008 GO authority is explored further in Part II of this report.

PART II: AUTHORIZED BUT UNISSUED K-14 GENERAL OBLIGATION AUTHORITY FROM 2008

More recent K-14 GO bond authorizations tend to have higher percentages of unissued bond authority, because districts often issue their bonds over several years following an election. Over time, however, the authorization is expected to be issued almost entirely.

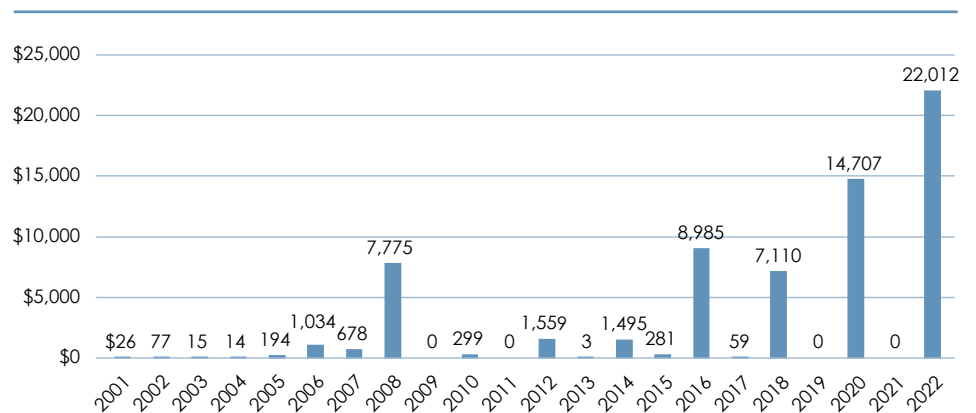
The year 2008 stands out as a major outlier in this trend, with almost \$7.8 billion of GO authority yet to be issued as of the end of 2022.

Another notable observation is that multiple districts with remaining 2008 GO authority have sought voter approval to "reauthorize" the original GO bond authority instead of directly using the district's existing authority. This has led many to speculate whether the remaining 2008 GO authority for K-14 districts could be effectively "stranded," meaning that the district is not planning – or unable – to issue GO debt using that authority in the future.

CDIAC has found after substantial analysis that although some of the unissued 2008 GO authority is not able or likely to be issued in the future, most of the remaining 2008 GO authority is still considered active. In fact, K-14 issuance of 2008 GO authority began to increase significantly starting in 2020, when almost \$2 billion of debt was issued using 2008 GO authority. In 2021, over \$600 million of 2008 GO authority was issued by K-14 districts, and over \$1 billion of the remaining 2008 authority was issued in 2022.

Figure 4

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT G.O. BOND AUTHORITY VOLUME UNISSUED BY ELECTION YEAR, 2001-2002 (IN MILLIONS OF DOLLARS)



Source: Original CDIAC analysis, last updated February 2023

District Sample

Currently, there are 1,012 active K-14 districts, and 137⁸ K-14 districts that obtained GO bond authority in 2008 through 142 separate elections.⁹ (See Figure 5.) As of December 31, 2022, 70 K-14 districts continued to have unissued GO authority worth almost \$7.8 billion from 71 2008 GO elections.¹⁰ This report focuses on the 70 districts (and 71 elections) with unissued 2008 GO bond authority in an amount greater than \$100,000.¹¹

CDIAC staff contacted all 70 districts with unissued 2008 GO authority to try to gain additional insight about districts' decisions to not issue bonds using their remaining GO authority. CDIAC received responses from 23 districts, which provided additional context about the economic, geographic, financial, and political conditions that affected K-14 districts' decisions to issue – or not issue – GO debt. These factors are discussed in more detail throughout the report.

K-12 DISTRICTS. Of the 137 districts that received voter approval to issue GO debt in 2008, 126 (92%) were K-12 school districts. By the end of 2022, 64 of these K-12 districts continued to have remaining 2008 GO authority.

The K-12 school districts with unissued 2008 GO election authority were dispersed throughout the state; however, many of the districts with the highest percentages of unissued authority were located in specific regions, such as in California's Central Valley and Inland Empire. Figure 6 shows the

districts that established GO bond authority in 2008,¹² with shading indicating the percentage of unissued GO authority for each district.

COMMUNITY COLLEGE DISTRICTS. Of the 11 community college districts that established GO authority in 2008, 6 districts continue to have outstanding authority worth over \$533 million. These community college districts are based in four counties:¹³ San Bernardino County (\$334 million in unissued authority), Los Angeles County (\$176 million), Fresno County (\$13 million), and Sacramento County (\$10 million).

Factors That Have Discouraged Issuance of 2008 GO Authority

DECLINING AV LEVELS. As mentioned earlier in Part I of this report, AV levels can significantly affect districts' issuance of GO debt. 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 that will stay within Proposition 39 limitations and gen-

erate the necessary tax revenue to pay debt service on the bonds (Figure 2).¹⁴

In 2008, over \$28 billion in GO authority was approved, which coincided with a period of depressed home values and successive years of declines in AV. The unlimited tax obligation backing of voter-approved K-14 GO bonds establishes a direct relationship between AV and tax rates such that falling AVs lead to increasing tax rates (and vice versa). Districts experiencing negative or flat AV growth that push tax rates over the statutory limit cannot issue new bonds under the remaining authority. These districts must wait until AV rises to sufficient levels that allow them to issue new bonds under the tax rate limit.

Many districts with newly approved GO bond authority in 2008 were not yet ready to issue bonds immediately and falling AV levels impeded the districts' ability to project tax rates below the Proposition 39 caps to support debt issuance during the Great Recession period. As California began to recover economically, some areas were able to rebound more quickly than others. The unequal geographic recovery from the reces-

Figure 5

BREAKDOWN OF CALIFORNIA K-14 DISTRICTS IN REPORT SAMPLE

CATEGORY	K-12	COMMUNITY COLLEGE	TOTAL
Total number of K-14 districts in California	939	73	1,012
Districts with GO bond authority approved in 2008	126	11	137
Districts with GO bond authority approved in 2008 with at least \$100,000 of unissued GO bond authority	64	6	70
Districts that are known to have reauthorized a portion of the original 2008 GO bond authority	8	1	9
Districts with GO bond authority approved in 2008 that has never been issued against	2	0	2

⁸ The California Department of Education's school district directory lists 939 active elementary, high school, and unified school districts, "California School Directory," *California Department of Education*, Accessed February 16, 2023, www.cde.ca.gov/schooldirectory and The California Community Colleges Chancellor's Office (CCCCO) reports 73 active community college districts operating in California. This was confirmed with a CCCCCO representative on March 2, 2021.

⁹ Four of the K-14 districts that obtained GO authority in 2008 have since closed.

¹⁰ A spreadsheet of the data for the "K-14 Voter Approved General Obligation Bonds: Authorized but Unissued" report series is also available upon request.

¹¹ CDIAC considered districts with at least \$100,000 in unissued authority, because districts with smaller amounts are not likely to consider a future issuance due to the costs associated with issuing debt.

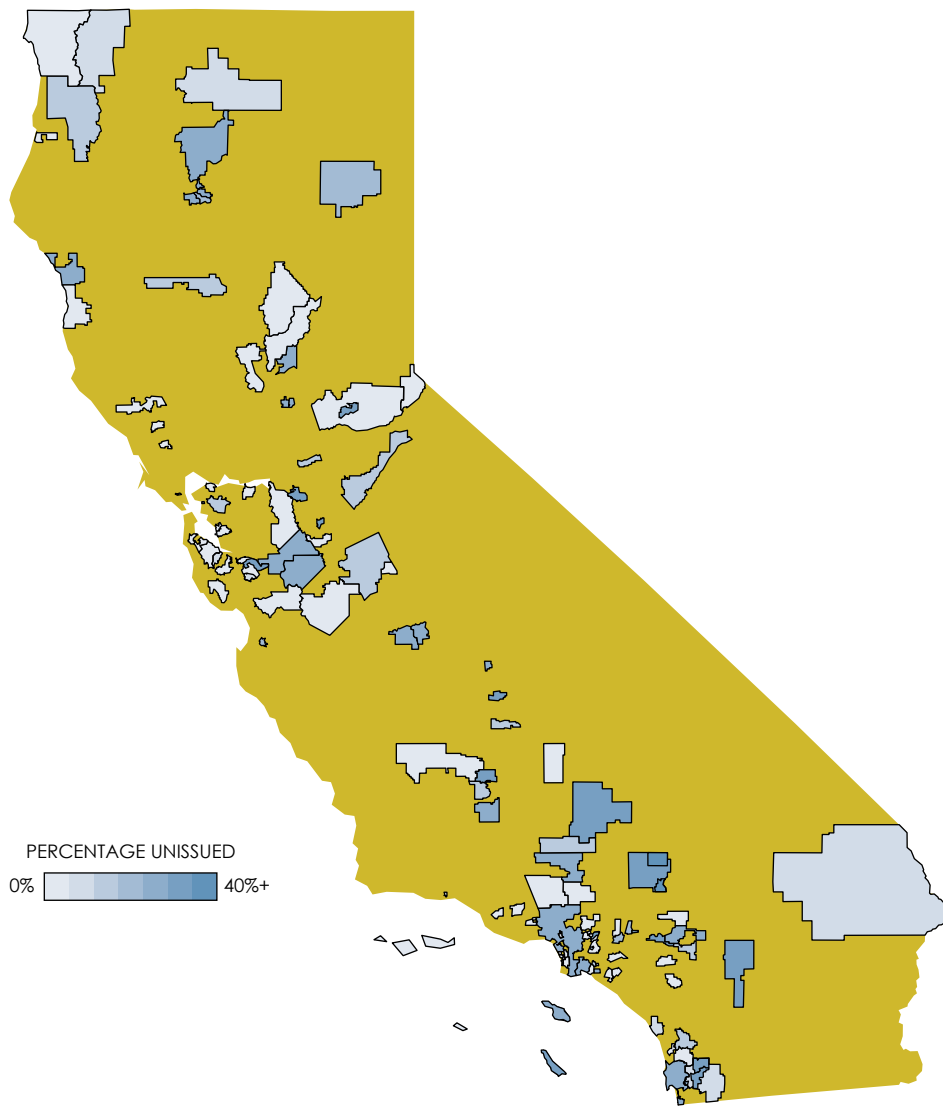
¹² Greg Dixon, "California School District Areas 2018-19," *California Department of Education*, Last updated July 31, 2020, Accessed August 20, 2021, <https://data-cdegis.opendata.arcgis.com/search?tags=school%20district>.

¹³ Some California community college districts span more than one county. This analysis considered only the county where the community college district was based.

¹⁴ Tara Dunn, "Measuring K-14 Property Tax Rates Against Proposition 39 Limits," *California Debt and Investment Advisory Commission*, 7-8, Published June 2017, Accessed February 11, 2021, www.treasurer.ca.gov/cdiac/publications/issue-brief/2017/17-06.pdf.

Figure 6

CALIFORNIA K-12 SCHOOL DISTRICTS WITH G.O. AUTHORITY ESTABLISHED IN 2008
DISTRICT AREAS SHADED BY PERCENTAGE OF UNISSUED AUTHORITY



sion continued to impact the ability of some K-14 districts to issue GO bond authority established in 2008. Although the decision to issue debt is determined by many independent factors, there is a strong relationship between higher amounts of unissued debt and areas that had large declines in AV after the global financial crisis. Of the districts with remaining 2008 GO authority that responded to CDIAC's request for information, 91% replied that decreasing AV during the Great Recession was a primary reason that the district has delayed issuance of its 2008 GO authority.

REAUTHORIZATIONS AND STRANDED AUTHORITY. In specific cases, districts with remaining authority may decide they need to return to the voters to request additional voter approval under a new bond measure.¹⁵ Seeking voter approval is a time- and resource-intensive process, and districts usually only make the decision to "reauthorize" existing authority if there are impediments to using the original authority that limit the district's access to issuing debt.

Notably, 9 of the 70 districts with remaining 2008 GO authority have chosen to reauthorize their original election authority through a new ballot measure. Once approved by voters, the authority obtained by the districts in 2008 is no longer considered active, as it has been replaced (in whole or in part) by the authority derived from the new voter-approved ballot measure. This inactive authority is one reason why the remaining GO authority from K-14 districts remains higher than in other years.

Altogether, the reauthorized 2008 GO bond authority constitutes approximately \$589 million of the almost \$772 million in unissued authority for the 9 districts that have used reauthorizations. Just over half of the districts reauthorized essentially the same unissued amount from the previous GO authorization while the remaining districts reauthorized only a fraction of the original 2008 bond authorization.

¹⁵ While the State Board of Education can approve waivers for a school district to exceed statutory GO debt limits, those waivers have contained a condition that statutory lien levies not exceed tax rate limits, if applicable, at the time the bonds are issued.

The almost \$589 million of GO authority that has been reauthorized is no longer active authority from 2008 but is now considered to be GO authority under the more recent ballot measures. The \$183 million difference in reauthorization amounts for the aforementioned districts, however, is considered to be stranded in its entirety and will not be issued in the future. The entire \$772 million – or 10% of the almost \$7.8 billion in unissued 2008 GO bond authority – is thus considered to be stranded and is not expected to be issued in the future.

Recent Factors That Have Encouraged Issuance of 2008 GO Authority

RECOVERY OF AV. An especially important factor that has affected recent issuance of previously inactive election authority has been the recent recovery in AV levels. Rising property values in the years after the Great Recession have allowed AV to recover in most districts. As of July 2021, over 95% of districts throughout California have seen strong recoveries of AV, with a median nominal AV increase of 35%¹⁶ since FY 2014-15.¹⁷ This recovery in AV may have allowed more districts to issue more of their approved authority from 2008, especially in cases where a district's authority may have otherwise been considered "stranded."

REFUNDINGS. As mentioned earlier, districts with tax rates at or over Proposition 39 statutory limits cannot issue new bonds using their existing GO authority. To create room for additional new money issuance, some districts have chosen to restructure their existing debt through a refunding. Historically low interest rates in 2020 and 2021 made it financially prudent for many

issuers, including many K-14 districts, to refinance prior debt through refundings. Recent refunding activity may have allowed districts to begin to issue against earlier GO authority, including authority from 2008. A few of the school districts contacted by CDIAC commented explicitly on refunding previous debt and confirmed that refunding the previous debt allowed them to issue against the 2008 GO authority in 2021.

ADDITIONAL FACTORS. A large share of districts has yet to issue a significant amount of their 2008 GO authority even after the recovery in AV and a recent period of historically low interest rates. Other reasons for not issuing remaining GO authority cited by some district representatives included changes in district priorities, reduced facility needs due to declining enrollment, and limited administrative capacity. CDIAC staff is also aware of at least one district where legal challenges have prevented issuance of outstanding 2008 GO authority. That said, most of the districts that responded to CDIAC's request for information considered their remaining 2008 GO authority to be active.

Conclusion

CDIAC estimates that the vast majority of the unissued 2008 GO authority of K-14 districts remains active and issuable; however, more than one-tenth of the 2008 GO authority is considered "stranded" and is not expected to be issued.

Although it is not possible to fully determine how much of the almost \$7.8 billion of remaining 2008 GO authority will be issued in the future, several districts have recently issued bonds using their remain-

ing 2008 GO authority. In 2022, over \$1 billion was issued in addition to more than \$600 million of bonds issued in 2021 and almost \$2 billion issued in 2020. This is further evidence that many districts still consider their 2008 GO authority to be active.

Although a significant portion of the remaining authority from 2008 remains active, the full amount of unissued GO authority for California K-14 districts should not be considered as active and issuable by policymakers or stakeholders that track the issuance of public debt. CDIAC will continue to track and report on GO authority that is approved and/or issued in future years in its annual *K-14 Voter Approved General Obligation Bonds: Authorized but Unissued* report.

Acknowledgements

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¹⁶ CalMuni, "Assessed Valuation Over Time for California K-14 Districts," *CalMuni*, Updated July 1, 2021, Accessed July 28, 2021.

¹⁷ AV data for all K-14 districts was not available before FY 2014-15. AV levels from FY 2014-15 were compared to those from FY 2020-21.