



GETTING DOWN — TO FACTS II —

Technical Report

Financing School Facilities in California: A Ten-Year Perspective

Eric J. Brunner
University of Connecticut

Jeffrey M. Vincent
University of California, Berkeley

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About: The *Getting Down to Facts* project seeks to create a common evidence base for understanding the current state of California school systems and lay the foundation for substantive conversations about what education policies should be sustained and what might be improved to ensure increased opportunity and success for all students in California in the decades ahead. *Getting Down to Facts II* follows approximately a decade after the first *Getting Down to Facts* effort in 2007. This technical report is one of 36 in the set of *Getting Down to Facts II* studies that cover four main areas related to state education policy: student success, governance, personnel, and funding.

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Executive Summary

Since the passage of the *Leroy Greene School Facilities Act of 1998*, California's system of school facility finance has evolved into a cost-sharing partnership between the state and local school districts. The state provides districts with financial support for new school construction and modernization projects through the School Facility Program (SFP). Since 1998, voters in California have approved 5 statewide bond issues to fund the SFP. Combined, those bond issues have provided K-12 public schools with \$42.43 billion in state funding for school facility projects. Local school districts finance their share of school construction and modernization costs primarily with revenue raised through local general obligation (G.O.) bond elections and developer fees. Between 1998 and 2016, local school districts have raised over \$113 billion from local school bond issues and \$10.47 billion from developer fees to finance school facility improvements.

Brunner (2006) provides a comprehensive review of California's system of school facility finance from its origins through 2006. This study examines how California's system of school facility finance, and the level and distribution of funding for K-12 school facilities, has changed over the decade since 2006. Our report addresses five broad questions related to the way California finances its school facility needs: 1) How has California's system of school facility finance evolved over the last 10 years; 2) How has the level of school facility funding in California changed over time and how does it compare to the level of funding in other states; 3) How is funding for new school construction and modernization distributed across school districts; 4) Are disparities in school facility funding systematically related to school district property wealth, income, the share of disadvantage students and the racial/ethnic composition of school districts; and 5) How has school facility funding for charter schools changed over the last decade and how does facility funding for charter schools in California compare to other states?

School Facility Funding Has Fluctuated Significantly Over Time

Since 1970 the level of school facility funding has fluctuated significantly. Part of this fluctuation is due to changes in economic and demographic conditions, such as the Great Recession and periods of declining and expanding enrollment. Political events, such as the passage of Proposition 13 in 1978 and the passage of Proposition 39 in 2000, have also contributed to the variability of school facility funding. Importantly, the irregular and unpredictable nature of statewide school facility bond issues has also led to considerable variability in school facility funding.

California's Level of School Facility Spending is Similar to Other States

Prior to 2000, spending per-pupil on school facilities in California lagged behind the rest of the nation. Since 2000, spending on school facilities in California has remained close to the national average and similar to the level of spending in comparison states such as New York and Washington. Since 2008, spending per-pupil on school facilities in California has fallen dramatically, but it remains close to the national average.

California School Districts Now Rely Much More Heavily on Local G.O. Bonds to Finance School Facility Investments than in the Past

California's system of school facility finance has often been referred to as a "three-legged stool," with statewide bonds, local G.O. bonds and developer fees all playing an important role in school facility finance. In recent years, however, the percentage of total facility funding coming from statewide bond revenue and developer fees has declined significantly. Between 1998 and 2006, state aid and developer fees made up approximately 32% and 11% of total facility revenues, respectively. In contrast, between 2007 and 2015, state aid and developer fees made up just 19% and 5% of facility revenues, respectively. Due to these declines, the share of revenue derived from local G.O. bond revenue rose from 50% during the 1998-2006 period to 65% during the 2007-2015 period. The decline in the share of total revenue from state aid is a result of no statewide bonds being issued to support K-12 school facilities between 2007 and 2015. The decline in the share of revenue from developer fees is a direct consequence of the decline in new construction that followed the Great Recession.

There are Wide Disparities in School Facility Funding across Districts

Revenue per-pupil for school construction and modernization varies widely across districts. For example, in unified districts, the difference between the 90th and 10th percentiles of facility revenue per-pupil is over \$16,000 per-pupil. Part of this variation is due to differences in need: districts with higher enrollment growth rates tend to have higher revenue per-pupil. However, a larger share of the variation is related to differences in wealth: districts with higher assessed value per-pupil raise substantially more revenue through local general obligation bond issues and consequently, tend to have substantially higher total revenue per-pupil. Assessed value per-pupil in California is positively correlated with household income and negatively correlated with the share of disadvantaged and nonwhite students.¹ As a result, school facility funding tends to be higher in districts with the highest median household income and lower in districts with the highest concentrations of disadvantaged or nonwhite students. Overall, our analysis reveals large facility spending differences across districts related to wealth and a state aid program that does little to dampen inequality except at the very bottom of the wealth distribution. As a result, California's system of school facility finance is relatively regressive.

School Facility Program (SFP) Funding for New Construction Appears to Target the Highest Need Districts. SFP Funding for Modernization, Appears to Reinforce Disparities in Funding that Arise from Differences in Property Wealth.

The disparities in school facility funding between high- and low-wealth districts have led to concerns that California's School Facility Program (SFP), which operates on a first-come, first-

¹ We measure the percentage of disadvantaged students in a district as the unduplicated pupil count (UPC) of free or reduced-price meal (FRPM), English learner (EL), and foster youth students divided by total enrollment within a district.

served basis, tends to favor wealthier and larger districts that are able to apply more quickly for state funding (LAO, 2015). The two largest SFP programs are the New Construction and Modernization programs which combined, make up 78% of all state aid for school facilities. For the New Construction program, our analysis reveals no systematic relationship between district wealth and SFP new construction funding. Rather, it appears the program targets funding in accordance with district need. In contrast, the distribution of SFP funding for modernization is consistent with concerns that higher wealth districts and larger districts disproportionately benefit from the first-come, first-serve nature of the SFP program. SFP funding for modernization is systematically related to district size and wealth. Smaller districts are substantially less likely to receive funding, while higher wealth districts are substantially more likely to receive funding. Furthermore, district property wealth (assessed value) and household income both rise monotonically with the level of SFP modernization funding. As a result, SFP modernization funding tends to be regressive.

Charter School Facility Funding Continues to Expand

Prior to 2000, there were few facility funding options available to charter schools and most charter schools, particularly non-conversion charter schools, faced significant barriers to obtaining adequate school facilities. Since 2000, the facility dilemma facing charter schools has changed considerably. In November of 2000, California voters passed Proposition 39, which among other things, required local school districts to make every reasonable effort to house charter school students in facilities that were essentially equivalent to those used to house other students within the district. As a result, a 2015 report by the National Charter School Resource Center (NCSRC) concluded: “California’s Proposition 39 involves the strongest and most comprehensive mandate, resulting in the highest rate of charter schools in district space among the surveyed states.” Since 2000, California has implemented several programs designed to increase funding for charter school facilities, including: 1) the Charter School Facility Grant Program; 2) the Charter School Facilities Program (CSFP); 3) local school district bonds that apportion funding for charters; and 4) the conduit bond program. In addition, there are several federal programs that provide facility support, namely the New Market Tax Credits Program (NMTC) and the Charter School Facilities Incentive Grants Program (CSFIGP). Between 2002 and 2017, these programs have made available over \$2.9 billion in funding for charter school facilities, which amounts to approximately \$4,900 per-pupil based on 2017 charter school enrollments. Due to Proposition 39 and the rather robust stream of funding for charter school facilities, in 2018 the National Alliance for Public Charter Schools (NAPCS) ranked California among the top 8 states that provide “equitable access to capital funding and facilities” for charter schools.

Introduction

Since the passage of the *Leroy Greene School Facilities Act of 1998*, the State of California has issued \$42.43 billion in statewide general obligation bonds to assist local school districts in financing the construction and modernization of public K-12 school facilities across the state. The state's investment in school facilities complements investments made by local school districts, which dedicated over \$113 billion from local school bond issues and \$10.47 billion from developer fees to school construction and modernization between 1998 and 2016. Brunner (2006) provides a comprehensive analysis of how these investments affected both the level and distribution of school facility funding in California from 1998 – 2006. This report examines how California's system of school facility finance, and the level and distribution of funding for K-12 school facilities, has changed over the decade since 2006.

Section II provides an overview of California's system of school facility finance with a focus on the sources of revenue available for school construction and modernization projects. Section III turns to an examination of how school facility funding in California has changed over time and how it compares to the level of funding in other states. We begin by documenting how the level of school facility spending in California has changed since 1970. There we show that school facility spending in California has fluctuated dramatically over time, particularly since 1996. We then turn to an analysis of how school facility funding in California compares to the rest of the nation and to other states that are similar to California in terms of size or geographic proximity. Prior to 1998, school facility funding in California tended to lag behind the rest of the nation. However, between 1998 and 2007, spending per-pupil on school facilities in California has increased dramatically. As a result, spending per-pupil in California rose above the national average over the period. Since 2007, however, school facility funding in California declined dramatically; however, a similar decline occurred across the nation.

Section IV turns to describing California's current system of school facility finance. The section provides a detailed overview of the current School Facility Program (SFP) and documents the various steps school districts must follow to access state funds for new school construction and modernization projects. Section V turns to examining the level and distribution of school facility funding in California. There we document that over the nine-year period between 2007 and 2015 total school facility funding in California declined by approximately 27%, relative to the previous nine-year period between 1998 and 2006. The sharp decline in school facility funding was primarily due to the lack of any new statewide bond revenue during the 2007-2015 period and the decline in developer fees that accompanied the Great Recession. Despite the large declines in developer fees and state aid, local general obligation (G.O.) bond revenue remained relatively constant across the two nine-year periods. As a result, local G.O. bond revenue now makes up a significantly larger share of total facility revenue, rising from 50% during the 1998-2006 period to 65% during the 2007-2015 period. Section V also shows that school facility funding varies widely across districts, primarily due to differences in local G.O. bond revenue across districts.

Section VI examines potential explanations for the wide variation in school facility funding across school districts. There we show that part of the variation in facility funding can be explained by differences in need: districts with higher enrollment growth tend to have higher levels of facility funding. However, a larger share of the variation is due to difference across districts in wealth: high income and high property-wealth districts tend to have significantly higher local general obligation bond revenue per-pupil and consequently, significantly higher total revenue per-pupil. Furthermore, because property wealth is negatively correlated with the share of disadvantaged and nonwhite students, districts with the highest concentrations of disadvantaged and nonwhite students also tend to have lower total revenue per-pupil. Overall, our analysis reveals large facility spending differences across districts related to wealth and a state aid program that does little to dampen inequality except at the very bottom of the wealth distribution. As a result, California's system of school facility finance is relatively regressive.

Section VII examines in more detail how new construction, modernization, and overcrowded school aid from the state's School Facility Program is distributed across school districts. A reoccurring criticism of the School Facility Program is that state aid is made available on a first-come, first-served basis, which critics argue benefits higher wealth and larger districts that can more rapidly apply for aid. Section VII analyzes this concern using data on the allocation of SFP funding for new construction, modernization and overcrowded schools between 1998 and 2017. Our analysis reveals no systematic relationship between SFP funding for new construction and district wealth. Furthermore, while smaller school districts are significantly less likely to participate in the SFP New Construction program, they also tend to have substantially lower enrollment growth rates, which is a primary determinant of program eligibility. We conclude that overall, the SFP New Construction program appears to target funding according to need and does not favor high-wealth or larger districts. Our analysis of two smaller SFP programs, namely the Critically Overcrowded Schools (COS) program and the Overcrowding Relief Grant (ORG) program, leads to a similar conclusion.

In contrast, the distribution of SFP funding for modernization raises concerns that higher wealth and larger districts disproportionately benefit from the first-come, first-serve nature of the SFP program. SFP funding for modernization is systematically related to district size and wealth. Smaller districts and districts with lower property wealth are substantially less likely to receive funding. Furthermore, SFP Modernization funding rises monotonically with district property wealth and household income.

Section VIII provides an overview of school facility funding for charter schools in California. It begins by discussing the unique facility challenges charter schools face and how recent events, such as the passage of Proposition 39, have impacted the ability of charter schools to access facility funding. We then discuss the sources of revenue available for charter school facility finance and how California's charter school facility finance system compares to other states. The report concludes by summarizing the main findings presented in Sections II-VIII and linking those findings to research reports that have recommended various changes to the current system of school facility finance in California.

California's System of School Facility Finance

California's system of school facility finance has changed significantly over time. Prior to the late 1940's, local school districts were almost entirely responsible for the financing of new school construction and modernization projects. The state's role in school facilities was limited to mandatory construction inspections and criteria for the oversight of construction design, which were established following the Long Beach earthquake in 1933. The state first became involved in school facility finance in 1947 when the state legislature created the State Allocation Board (SAB) and charged the board with allocating state funds for new school construction and modernization projects. Since then, the state has had multiple programs over the years that provided facility funding to school districts.² The current system, the School Facility Program (SFP), was created when the legislature passed Senate Bill (SB) 50, *The Leroy Greene School Facilities Act of 1998*. The SFP was designed as a collaboration between the state and local school districts, with each entity providing a portion of the costs associated with new construction or modernization projects (Brunner 2006; Vincent 2012).

Table 1. State K-12 Education General Obligation Bonds, 1949-2016 (Millions USD)

| Years | No. proposed | No. passed | Amount proposed | Amount passed | Real amount passed (2016 \$) |
|--------------|--------------|------------|-----------------|-----------------|------------------------------|
| 1949-60 | 5 | 5 | \$1,055 | \$1,055 | \$8,248 |
| 1961-70 | 3 | 3 | \$735 | \$735 | \$5,133 |
| 1971-80 | 4 | 2 | \$1,050 | \$500 | \$2,488 |
| 1981-85 | 2 | 2 | \$950 | \$950 | \$2,120 |
| 1986-90 | 5 | 5 | \$4,000 | \$4,000 | \$7,832 |
| 1991-95 | 3 | 2 | \$3,800 | \$2,800 | \$5,069 |
| 1996-00 | 2 | 2 | \$8,725 | \$8,725 | \$13,681 |
| 2001-05 | 2 | 2 | \$21,400 | \$21,400 | \$31,016 |
| 2006-10 | 1 | 1 | \$7,329 | \$7,329 | \$8,908 |
| 2011-15 | 0 | 0 | 0 | 0 | 0 |
| 2016-Present | 1 | 1 | \$7,000 | \$7,000 | \$7,000 |
| Total | 28 | 25 | \$56,044 | \$54,494 | \$91,495 |

Notes: Real amounts are reported in constant 2016 dollars and adjusted using the Producer Price Index by Commodity for Intermediate Demand by Commodity Type: Materials and Components for Construction.

The state provides support for new school construction and modernization projects through the School Facility Program (SFP), which is funded by voter-approved statewide general obligation (G.O.) bond revenue. Table 1 summarizes the history of statewide school bond

² See Cohen (1999), Brunner (2006) and Gorsen et al. (2006) for detailed histories.

initiatives.³ Since 2001, voters have approved \$46.92 billion (measured in constant 2016 dollars) in statewide bonds for K-12 school facilities. This represents over 51% of the total statewide bond revenue raised since 1949. Table 1 also illustrates the irregular nature of statewide school facility bond issues. For example, during the five-year period between 2001 and 2005, voters approved over \$31 billion (real 2016 dollars) in statewide bonds. In contrast, over the five-year period between 2011 and 2015 no statewide bonds were made available and over the ten-year period between 2006 and 2015 only \$8.9 billion in statewide bonds were made available. Table 2 lists the funding made available to specific SFP programs and the year of the statewide proposition that authorized funding for the specific programs. Some of the programs listed in Table 2, such as the Critically Overcrowded Schools and Class Size Reduction programs, are no longer active. The SFP's two main programs are the New Construction Program and the Modernization Program, which together have accounted for the vast majority (78%) of funds since 1998.

Table 2. Programs Financed with State K-12 Education General Obligation Bonds, 1998-2016 (Millions USD)

| Program | Real Amount Authorized | | | Year of Proposition Authorization |
|--------------------------------|------------------------|-----------------|------------|-----------------------------------|
| | Amount Authorized | (2016 USD) | Percentage | |
| New Construction | \$19,010 | \$26,119 | 46 | 1998, 2002, 2004, 2006, 2016 |
| Modernization | 13,950 | 18,378 | 32 | 1998, 2002, 2004, 2006, 2016 |
| Career Technical Education | 1,000 | 1,108 | 2 | 2006, 2016 |
| High Performance Schools | 100 | 122 | 0 | 2006 |
| Overcrowding Relief | 1,000 | 1,215 | 2 | 2006 |
| Critically Overcrowded Schools | 4,140 | 5,931 | 10 | 2002, 2004 |
| Charter School | 1,400 | 1,672 | 3 | 2002, 2004, 2006, 2016 |
| Joint Use | 129 | 180 | 0 | 2002, 2004, 2006 |
| Hardship | 1,000 | 1,560 | 3 | 1998 |
| Class Size Reduction | 700 | 1,092 | 2 | 1998 |
| Total | \$42,429 | \$57,377 | 100 | |

Notes: Data on School Facility Program (SFP) funding levels comes from the California Office of Public School Construction. Real revenue amounts are reported in 2016 dollars and adjusted using the producer price index.

Enshrined in the SFP is a high level of local control and responsibility by school districts for facility investment decisions. Local school districts rely primarily on revenue raised through local general obligation bond elections to finance their share of school construction and modernization costs.⁴ School districts are fiscally independent agencies with taxing authority to raise capital funds through local G.O. bond elections. Local bonds are repaid with property tax revenue raised from a special tax assessment on all property located within a school district. School districts may issue additional bonds up to their debt capacity level, which is currently set

³ The revenue figures in column 6 are adjusted for inflation using the Producer Price Materials and Components for Construction Index and are reported in constant 2016 dollars. Producer Price Index by Commodity for Intermediate Demand by Commodity Type: Materials and Components for Construction [WPUID612], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/WPUID612>, December 7, 2017.

⁴ California school districts also have other options to raise local funds for school facility investments, but they have generated only a small amount of revenue for school facility investment over time. See Brunner (2006) for a detailed discussion of these other revenue sources.

at 1.25 percent of assessed value for elementary and secondary districts and 2.5 percent for unified districts. Table 3 documents the number of local school bond initiatives held in California since 1986 and the amount of revenue raised through those elections.⁵ Between 1986 and 2016, California school districts held a total of 2,156 local general obligation bond initiatives. Of those, 1,532 (71%) have been approved by voters. Measured in constant 2016 dollars, these local initiatives have raised over \$152.7 billion for school construction and modernization projects. Prior to the passage of Proposition 39 in 2000, local school bond initiatives required approval of 66.7% of voters. Proposition 39 lowered that vote threshold to 55%. As Table 3 makes clear, since the passage of Proposition 39, both the passage rate of local school bond initiatives and the amount approved have increased significantly. Furthermore, since the passage of the *Leroy Greene School Facilities Act of 1998*, local school districts have raised over \$134.5 billion (measured in constant 2016 dollars) in local G.O. bond revenue for school facility projects.

Table 3. Local K-12 Education General Obligations Bonds, 1986-2016 (Millions USD)

| Years | No. proposed | No. passed | Percent passed | Amount proposed | Amount passed | Real amount passed (2016 \$) |
|-----------------|--------------|------------|----------------|-----------------|---------------|------------------------------|
| 1986-90 | 124 | 65 | 52% | \$2,730 | \$1,334 | \$2,584 |
| 1991-95 | 291 | 127 | 44% | 8,499 | 3,603 | 6,210 |
| 1996-00 | 444 | 282 | 64% | 23,039 | 14,127 | 21,938 |
| 2001-05 | 355 | 285 | 80% | 28,621 | 26,091 | 37,234 |
| 2006-10 | 379 | 290 | 77% | 37,408 | 33,825 | 38,401 |
| 2011-16 | 563 | 483 | 86% | 51,228 | 45,608 | 46,397 |
| Total 1986-2016 | 2,156 | 1,532 | 71% | \$151,526 | \$124,588 | \$152,765 |
| Total 1998-2016 | 1,581 | 1,235 | 78% | \$129,424 | \$113,626 | \$134,528 |
| Total 2001-2016 | 1,296 | 1,058 | 82% | \$117,257 | \$105,524 | \$122,033 |

Notes: Data on local bond elections from 1986 - 2016 comes from *EdSource* and the Coalition for Adequate School Housing (CASH). Real amounts are reported in constant 2016 dollars and adjusted using the producer price index.

Collecting fees on local development is another mechanism school districts use to raise funds for school facility investments. A key shift under the SFP, as outlined in SB 50, is that restrictions were placed on the power of cities and counties to levy mitigation fees on new development to pay for new school construction. SB 50 transferred this taxing power to local school districts, allowing them to charge three levels of fees (Level 1, 2, or 3) depending on

⁵ Due to Proposition 13, school districts were prohibited from issuing local G.O. bonds to finance school facilities from 1978-1986. Proposition 13 capped property tax rates at 1% of assessed value and prohibited property tax overrides. In 1986, California voters passed Proposition 46, which reestablished the authority of local school districts to issue general obligation bonds, subject to the approval of two-thirds of the voters within a district.

conditions, as set forth in *Government Code* § 65995.⁶ A district may levy Level 1 fees if they are justified in the district’s development fee justification study.⁷ The dollar amounts per square foot for residential and commercial construction are set in statute and are annually adjusted for inflation. Level 2 fees are higher and can be imposed if a series of requirements and threshold tests are met.⁸ The highest fees – Level 3 – can only be imposed if the SAB officially declares the state program out of funds and the district has already adopted Level 2 fees.

Changes in School Facility Funding over Time and Comparisons to Other States

This section documents how the level of school facility funding in California has changed over time and how it compares to the rest of the nation.⁹ Figure 1 documents the historical trend in per-pupil K-12 school facility spending in California (from both state and local revenue sources) from 1970 to the present.¹⁰ Spending levels are adjusted for inflation and reported in constant 2016 dollars.¹¹ As the figure makes clear, school facility spending has fluctuated significantly over time. Part of this fluctuation is due to changes in economic and demographic conditions, such as the Great Recession in 2008 and periods of declining and expanding enrollment. Political events and fluctuations in the availability of statewide bond revenue have also contributed to the variability of school facility funding. Specifically, between 1978 and 1984, school facility spending in California declined continuously. This decline is attributable to the passage of Proposition 13 in 1978, which capped property tax rates at 1% of assessed valuation and prohibited school districts from issuing general obligation bonds that are backed by property tax increases that remain in effect until the bonds are fully repaid. Between 1984

⁶ EC Section 17620(a)(1) states that "The governing board of any school district is authorized to levy a fee, charge, dedication, or other requirement against any construction within the boundaries of the district, for the purpose of funding the construction or reconstruction of school facilities, subject to any limitations set forth in Chapter 4.9 (commencing with Section 65995) of Division 1 of Title 7 of the *Government Code*." For information on current developer fee amounts, see: <https://www.dgs.ca.gov/opsc/Resources/AnnualAdjustment.aspx>

⁷ For example, see CA’s Fiscal Crisis & Management Assistant Team’s 2015 document, “Preparing School Facilities Developer (Level 1) Fee Justification Studies.” <http://fcmat.org/wp-content/uploads/sites/4/2015/03/FCMAT-Alert-3-2015-Developer-Fee-Studies.pdf>

⁸ As noted by the Coalition of Adequate School Housing (CASH), to qualify for Level 2 fees, a school district must have applied for state funding pursuant to the School Facility Program, received an eligibility determination from the SAB, and met two of the four following criteria: 1) Have a certain percentage of "substantial enrollment" in multi-track-year-round education; 2) Meet specified bonding/debt capacity requirements; 3) Have held a local general obligation bond election in the past four years that received at least 50% plus one of all votes cast; and 4) Have a certain number of relocatable classrooms throughout the school district.

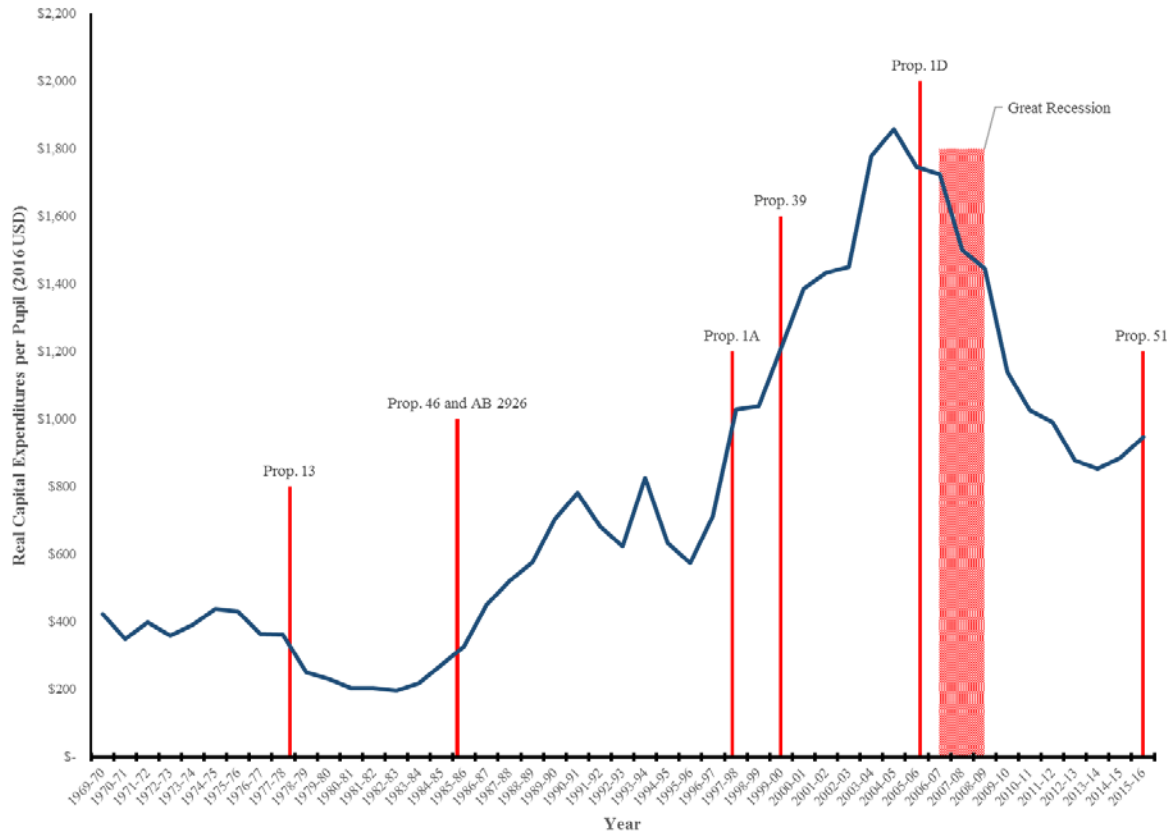
⁹ For a description of school facility finance systems in other states see Duncombe & Wang (2009), Vincent (2016), and Verstegen (2015).

¹⁰ Data on school facility spending over time was obtained from annual school finance records prepared by the California Department of Education. Specifically, data from 1970 to 1986 comes from annual reports on the “Financial Transactions Concerning School Districts in California,” while the data from 1987 to 2015 comes from J200 and SACS accounting records prepared by the California Department of Education.

¹¹ For the remainder of this report, all real revenue and expenditure amounts are adjusted for inflation using the Producer Price Index by Commodity for Intermediate Demand by Commodity Type: Materials and Components for Construction.

and 1986 school facility spending rebounded slightly due to the passage of two statewide bonds that provided funding for K-12 school facilities.

Figure 1. California Total Per-Pupil K-12 Facility Spending, 1970-2016



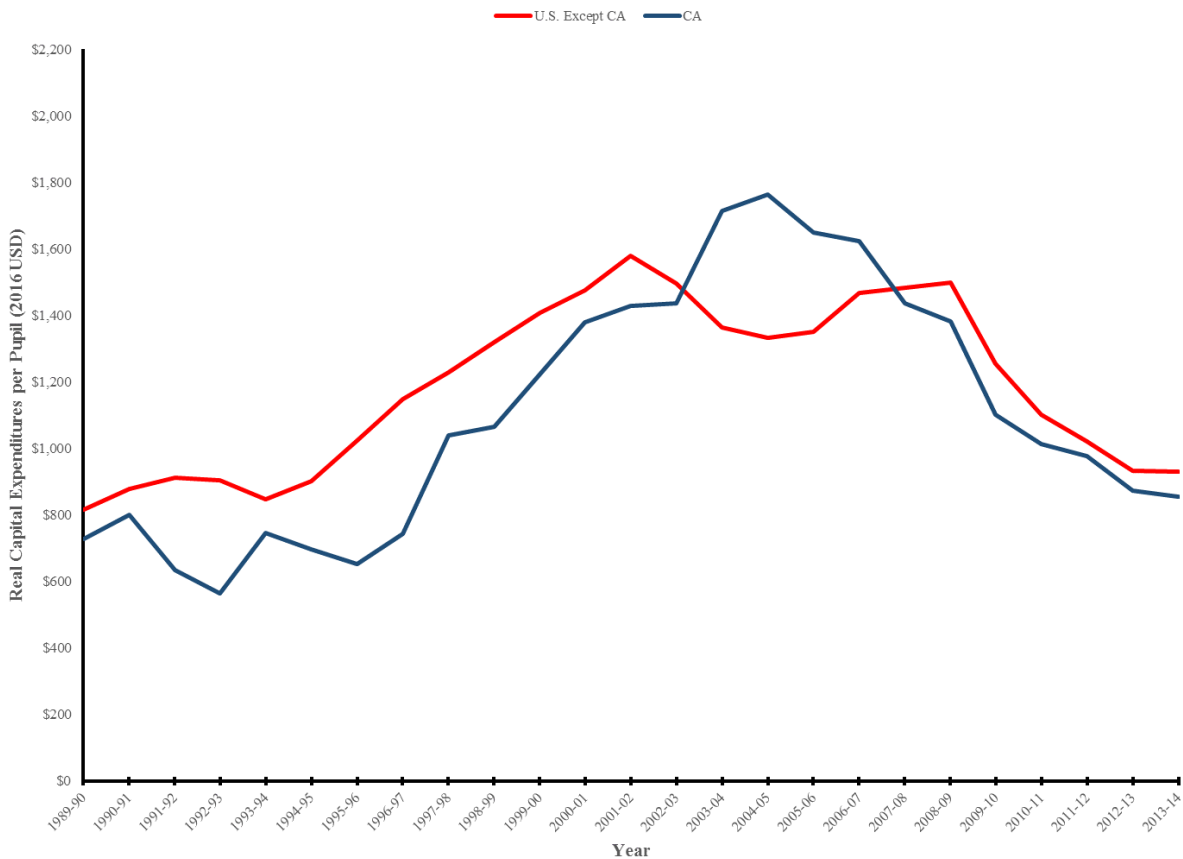
Source: California Department of Education J200 and SACS school district accounting records. Expenditure figures are measured in constant 2016 dollars and represent total capital expenditure of K-12 school facilities in a given year.

The continuous rise in school facility spending that occurred between 1986 and the mid-1990's was primarily due to four factors. First, enrollment began to rise in the early 1980's, increasing the demand for new school facilities. Second, between 1986 and 1992, voters approved seven statewide bond initiatives that provided an additional \$6.8 billion for school facilities. Third, in 1986, voters approved Proposition 46, which reestablished the authority of local school districts to issue general obligation bonds, subject to the approval of two-thirds of the voters within a district. Finally, also in 1986, the state legislature passed AB 2926 which authorized school districts to directly impose developer fees to finance new school construction.

Figure 1 also illustrates that school facility funding increased sharply between 1996 and 2005. Again, the significant increase in facility spending was driven by several political events: the passage of four statewide bond issues that provided over \$30 billion in additional funding for school facilities and most importantly, the passage of Proposition 39 in November 2000,

which lowered the vote requirement on local general obligation bonds from 66.7% to 55%. Finally, between 2007 and 2014, school facility spending fell dramatically before leveling out and rising modestly starting in 2015. Part of this decline is clearly attributable to the Great Recession and its impact on both state and local budgets. For example, as we show later in this report, the housing crisis that accompanied the Great Recession led to a sharp decline in developer fees, which reduced local revenues for school construction. The decline in developer fees was also accompanied by a decline in statewide support for school facility investments. During the 9-year period between 2007 and 2015, not a single statewide bond issue was placed on the ballot, leading to a sharp reduction in state aid for school facilities.¹²

Figure 2. Total Per-pupil K-12 School Facility Spending: CA versus US, 1990 – 2014



Source: National Center for Education Statistics (NCES) F33 Finance files. Annual facility spending is measured as the sum of total state and local capital expenditures. Spending levels are adjusted for inflation, with 2016 as the base year. In addition, spending levels in California are adjusted by the Faith+Gould location index for labor and construction material building costs in California relative to the United States

¹² The decline in school facility spending between 2007 and 2014 is also be partially attributable to the small, but consistent decline in student enrollment that has occurred since 2005.

Figure 2 compares per-pupil K-12 school facility spending in California with spending in the rest of the U.S between 1990 and 2014.¹³ Spending levels are adjusted for inflation, with 2016 as the base year. In addition, spending levels in California are adjusted by the Faith+Gould location index for labor and construction material building costs in California relative to the United States.¹⁴ Thus, the expenditures reported in Figure 2 measure the purchasing power of facility investments. Prior to 2003, school facility spending in California lagged behind the rest of the nation. With the passage of three statewide bonds between 2001 and 2006 and the passage of Proposition 39 in 2000, however, school facility spending in California rose above the national average and remained above the national average until the Great Recession in 2008. Since the Great Recession, school facility spending in California has mirrored the downward trend witnessed in the rest of the nation and has remained close to the national average.

Table 4 provides a more detailed comparison of per-pupil school facility spending in California with spending in other states between 1990 and 2014. For each time period listed in column 1, columns 2 through 8 respectively give the average level of facility spending in the U.S. except California, in California, and in five other comparison states.¹⁵ The comparison states listed in Table 4 were chosen based on either their similarity to California in terms of size (FL, NY, TX) or geographic proximity (OR, WA). Prior to 2000, California consistently spent less on K-12 school facilities than the rest of the nation and all other comparison states, other than Oregon. Since 2000, spending on school facilities in California has remained close to the national average. Furthermore, since the inception of the SFP in 1998, facility spending on average in California has remained above the level of spending in New York and Oregon, close to the level of spending in Washington, but below the level of spending in Florida and Texas. However, as shown in the bottom row of Table 4, these latter two states had substantially higher enrollment growth than California over the same period.

¹³ Data on K-12 School facility spending in the U.S. comes from the National Center for Education Statistics (NCES). Annual facility spending is measured as the sum of total state and local capital expenditures.

¹⁴ The index provides adjustments for building construction costs by state, with the national value of the index set at 100. In 2011, the index for California was 114.19, implying construction costs were 14.9% higher in California relative to the national average. The Faith+Gould index produces cost index estimates that are quite similar to other indices such as the RSMMeans index. The Faith+Gould index is available from the U.S. Department of Energy at: <https://bc3.pnnl.gov/location-factors>. Unfortunately, we do not have annual values of the index over the entire time period covered in Figure 2. As a result, we simply scale spending in California in all years by the value of the construction cost index in 2011.

¹⁵ All spending levels are once again reported in constant 2016 dollars. In addition, spending levels in California and comparison states are adjusted by the Faith+Gould location index for labor and construction material building costs relative to the U.S. average.

Table 4. State Comparisons of Facility Spending Per-Pupil (1998-2014)

| Period | U.S. Except | | | | | | |
|-----------------------|-------------|---------|---------|---------|---------|---------|---------|
| | CA | CA | FL | NY | OR | TX | WA |
| 1990-94 | \$871 | \$693 | \$1,720 | \$1,032 | \$667 | \$1,260 | \$1,584 |
| 1995-99 | \$1,124 | \$839 | \$1,643 | \$1,105 | \$911 | \$1,509 | \$1,443 |
| 2000-04 | \$1,464 | \$1,437 | \$2,014 | \$1,282 | \$1,280 | \$2,101 | \$1,574 |
| 2005-09 | \$1,426 | \$1,571 | \$2,530 | \$1,001 | \$959 | \$2,192 | \$1,767 |
| 2010-14 | \$1,047 | \$964 | \$894 | \$814 | \$756 | \$1,596 | \$1,468 |
| 1998-14 | \$1,313 | \$1,308 | \$1,797 | \$1,022 | \$994 | \$1,956 | \$1,600 |
| Enrl Growth 2005-2015 | 3.89% | -2.01% | 4.46% | -3.35% | 8.83% | 18.81% | 5.26% |
| Enrl Growth 1998-2015 | 8.68% | 8.76% | 20.18% | -4.22% | 11.08% | 34.48% | 8.31% |

Notes: Data on annual statewide K-12 capital spending comes from the National Center for Education Statistics (NCES) F33 Finance files. Expenditure figures represent average per-pupil spending over relevant time period. Expenditures are measured in constant 2016 dollars and adjusted using the producer price index. In addition, spending levels in California and comparison states are adjusted by the Faith+Gould location index for labor and construction material building costs relative to the U.S. average.

In summary, prior to 2000 school facility spending in California lagged behind the rest of the nation and behind that of most comparison states. Since 2000, school facility spending on average in California has remained close to the national average. With that in mind, the next section turns to a discussion of California’s current system of school facility finance.

California’s Current School Facility Program

The School Facility Program (SFP) marked a major change in California’s framework for public school facility finance. It also began a more robust state funding role. Central to the new approach was the establishment of per-pupil grants to school districts for eligible new construction and modernization projects, with supplemental grants available for site development, site acquisition and other site-specific costs. The program set forth new state/local cost sharing ratios and established a procedure for school districts to apply for state funds on a first-come, first-served basis. The SFP also implemented numerous reforms to the previous Lease-Purchase program that were designed to streamline the application process, simplify the overall structure of the state school facilities program, and create a more transparent and equitable funding mechanism.¹⁶ Relative to the Lease-Purchase Program, the

¹⁶ These reforms included new rules for funding eligibility, new rules for imposing local development fees, and numerous reforms to streamline and simplify state oversight and project application and approval. Between 1998 and 2018, various aspects of these regulations have changed, often in response to lawsuits (i.e., *Godinez v. Davis* in

SFP also allows districts considerable independence in determining the scope of any new school construction or modernization project. However, this greater independence comes at a potential cost; all state grants are considered to be full and final apportionments by the State Allocation Board (SAB). Thus, districts are responsible for any cost overruns or unanticipated costs associated with a project. Under the Lease-Purchase Program, some of those costs were reimbursed by the state.

As of January 2018, the SFP is primarily funded by bonding authority enabled by Proposition 51, which was approved by voters in November 2016. Proposition 51 authorized the state to store \$7 billion in bonds in a 2016 State School Facilities Fund, divided among four major programs: \$3 billion for new school construction; \$3 billion for school modernization; \$500 million for charter school facilities; and \$500 million for providing facilities for career technical education programs. In this section, we provide an overview of the current SFP, highlighting the intent of the funding, basic parameters of funding eligibility, and state/local cost sharing ratios. We focus primarily on the two largest programs in the SFP, namely the New Construction and Modernization programs. Section VIII provides an overview of charter school facility funding and the SFP's charter school program. We provide an overview of the SFP's Career Technical Education program and information on the state agencies that school districts must interact with to obtain funding approval for new construction and modernization projects in Appendix B and C.

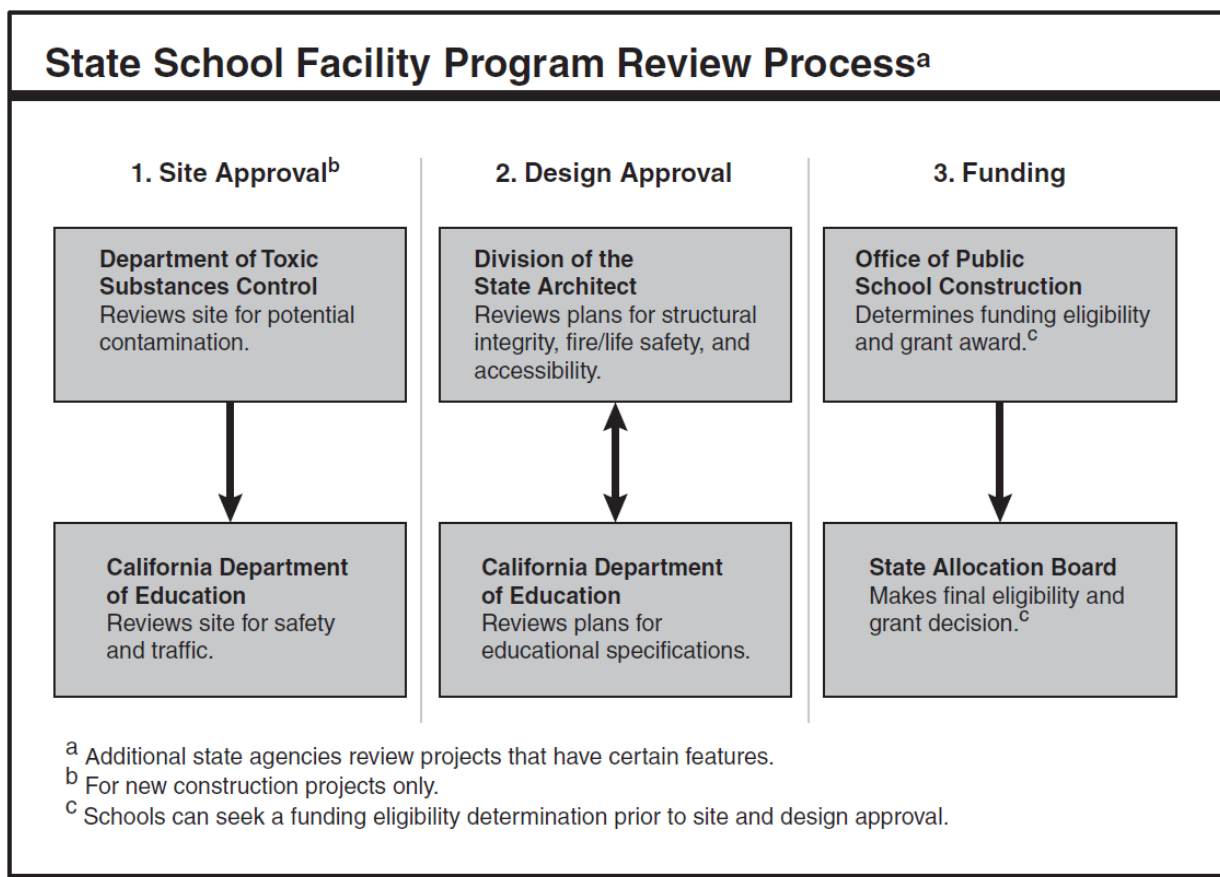
The process of obtaining state funding through the SFP is divided into two main steps: an application for eligibility and an application for funding. Applications for eligibility are reviewed by the Office of Public School Construction (OPSC) and then presented to the SAB at one of their monthly meetings for funding approval. Upon receiving approval from the SAB, a district may request funding by submitting a funding application to the OPSC. The funding application must include supporting documentation that shows that the district's plans for construction or modernization have been approved by the California Department of Education (CDE) and Department of General Services, Division of the State Architect (DSA).¹⁷

The completed funding application is reviewed by the OPSC and then submitted to the SAB for a funding apportionment. Funds apportioned by the SAB are released once the district has provided evidence that it has secured funding for required local matching funds and evidence that it has entered into a binding contract for at least 50% of the proposed construction project. Figure 3 illustrates the steps districts must follow to obtain funding for either new school construction or modernization projects.

2000 and *Williams v. State of California* in 2005) and regulatory changes imposed by the SAB. Nevertheless, the basic structure of the SFP program remains in place to this day.

¹⁷ See Appendix B for details.

Figure 3. New School Construction and Modernization Funding Process



Source: Legislative Analyst’s Office (February 2017)

The SFP’s New Construction Program provides state funds, on a 50/50 state-local cost sharing basis, for eligible costs of approved projects that add capacity to a school district.¹⁸ To obtain state funding, districts must first demonstrate they have “unhoused students” – that existing seating capacity is insufficient to house current students or anticipated students using a five-year projection of enrollment. Districts may establish eligibility on a district-wide basis or, if only some areas within the district are facing capacity constraints, on a High School Attendance Area (HSAA) basis for some unified and high school districts.¹⁹ Establishing eligibility involves three steps. In the first step, form SAB 50-01 is used to compute a five-year enrollment projection based on current and historical enrollment figures.²⁰ In the second step,

¹⁸ It should be noted that even though state regulations describe the New Construction Program as a “50/50” state-local match, the state only provides matching funds for specific *eligible* costs, which typically do not cover all real capital costs associated with a project. Thus, local school districts are responsible for the balance.

¹⁹ The HSAA only has 2 elementary districts eligible and requires a unified or high school district have four or more high schools with attendance areas.

²⁰ Districts that are experiencing rapid residential growth may supplement these enrollment projections using information on the number of unhoused students that are anticipated as a result of new residential development. To do so, the district must submit to OPSC either approved or tentative valid tract maps that show the size and

form SAB 50-02 is used to compute a district's existing capacity based on an inventory of the number of existing classrooms (or space that could be used as a classroom).²¹ In the third step, form SAB 50-03 is used to determine eligibility. Existing pupil capacity is subtracted from projected enrollment to determine the number (if any) of unhoused students. The number of students computed to be unhoused represents the district's eligibility for new school construction grants.

The SFP's Modernization Program provides state funds on a 60/40 state-local sharing basis for eligible costs associated with approved projects that involve improvements to educationally enhance existing school facilities (such as air conditioning, plumbing, lighting, and electrical systems).²² To qualify for funding, a school building must be at least 25 years old or, in the case of a portable classroom, at least 20 years old. The eligibility application for modernization projects consists of a single form (SAB 50-03). Districts may submit applications for modernization projects on a site-by-site basis. This is a fundamental difference from the New Construction program, which is calculated at the district or HSAA level.

Once a school district has determined eligibility for a project through OPSC and obtained CDE and DSA approval, it then applies to OPSC for funding. Projects are funded by the state on a per-pupil basis, utilizing detailed funding formulas for each of the SFP's funding programs. For new construction projects, the amount of the state grant is determined by multiplying the number of unhoused students (determined in the eligibility phase) by a per-pupil grant that is adjusted annually by the SAB to account for changes in construction costs.²³ The pupil grant is a composite dollar figure that provides the state's share for eligible project costs including design, construction, testing, inspection, furniture and equipment, and other costs closely related to the actual construction of school buildings. Current per-pupil grant amounts for new construction are shown in Table 5. Supplemental grants are also available to fund special project needs. The most common supplemental grants are site acquisition and site development grants, which respectively cover costs associated with purchasing a site and preparing a site for construction.²⁴ Site acquisition and development grants are made on a 50/50 state and local matching basis.

density of proposed new developments. See <https://www.dgsapps.dgs.ca.gov/OPSC/ab1014/sab50-01instructions.pdf> for more details on SFP enrollment projections.

²¹ Pupil capacity is computed by multiplying the number of existing classroom spaces by a load factor of 25 for elementary classrooms, 27 for middle and high school classrooms, 13 for non-severely disabled classrooms, and 9 for severely disabled classrooms.

²² Under the original 1998 legislation, modernization projects were funded on an 80/20 state and local matching basis. The matching rate was reduced to a 60/40 state and local basis following the passage of AB 16 in 2002. Again, it should be noted that even though state regulations describe the Modernization Program as a "60/50" state-local match, the state only provides matching funds for specific *eligible* costs, which typically do not cover all real capital costs associated with a project. Thus, local school districts are responsible for the balance.

²³ The SAB uses the Class B Construction Cost Index to annually update the per-pupil grants.

²⁴ Other supplemental grants include: fire code requirements, energy efficiency, special education, multi-level construction, project assistance, replacement with multi-story construction, geographic location, small size

Table 5. SFP New School Construction Grants, FY 2017

| Type of Student | Per-Pupil Grant Amount |
|---------------------------------|------------------------|
| Elementary School | \$11,104 |
| Middle School | \$11,744 |
| High School | \$14,944 |
| Special Day Class -- Severe | \$31,202 |
| Special Day Class -- Non-Severe | \$20,867 |

The funding application for new school construction consists of a single form, SAB 50-04. While the form itself is relatively simple, districts must also file with their application a number of supporting documents. These include: 1) an appraisal, escrow closing statement or court order and a CDE site approval letter if the project involves site acquisition; 2) DSA approval of construction plans; 3) CDE approval of final plans; and 4) a set of district certifications that include (among other things) the establishment of a restricted maintenance account,²⁵ certification that the district will fund its share of the project, and certification that the district's Labor Compliance Program has been approved by the Department of Industrial Relations (DIR).

For the Modernization program, the state grant amount is determined by multiplying the number of students to be housed in a modernized building by a per-pupil grant that is adjusted annually by the SAB to account for changes in construction costs. The pupil grant is a composite dollar figure that provides the state's share for eligible project costs including design, construction, ADA upgrade requirements, educational technology, testing, inspection, furniture, and equipment. Current per-pupil grant amounts for the Modernization program are shown in Table 6. Supplemental grants augment pupil grant funding. For example, excessive cost hardship grants are available for the costs associated with accessibility and fire code upgrades. Similar to new school construction projects, the funding application process for modernization projects consists of a single form (SAB 50-04) and a set of supporting documents that ensure the district has obtained DSA and CDE approval for its construction plans and obtained the requisite certifications. These certifications include: the establishment of a restricted maintenance account, evidence that the district has obtained funding to meet its required 40% match for project costs, and documentation of compliance with Department of Industrial Relations (DIR) requirements.

projects, new school projects, urban locations. For a detailed description of these supplemental grants see the School Facility Handbook.

²⁵ The SFP requires school districts that receive state funding for new construction or modernization projects establish a restricted maintenance account to ensure that projects are kept in good repair. For a period of 20 years, districts are required to deposit no less than three percent of their general fund budget annually into the restricted maintenance account. Small districts may deposit less than three percent into the account if they can demonstrate an ability to maintain their facilities using a smaller amount of money.

Table 6. SFP Modernization Grants, FY 2017

| Type of Student | Buildings 25 - 49 years old | Buildings 50 years old or older |
|---------------------------------|-----------------------------|---------------------------------|
| Elementary School | \$4,228 | \$5,874 |
| Middle School | \$4,472 | \$6,212 |
| High School | \$5,855 | \$8,132 |
| Special Day Class -- Severe | \$13,475 | \$18,721 |
| Special Day Class -- Non-Severe | \$9,015 | \$12,519 |

School districts unable to contribute some or all of the local matching funds required for new school construction and modernization projects may apply to the OPSC for financial hardship status. If financial hardship status is granted, districts can receive up to 100% state funding for eligible new school construction and modernization projects. Districts seeking financial assistance must have their financial hardship status approved prior to submitting an application with the OPSC for funding. To qualify for financial hardship funding, a district must demonstrate the following: 1) it is levying developer fees up to the maximum amount allowed by law; 2) it has made every reasonable effort to raise local revenue to fund a project;²⁶ and 3) evidence of financial inability to contribute the required local matching funds.²⁷

Current Funding Allocation and Application Processes of the School Facility Program

Since 2010, the State Allocation Board implemented and has continued to use an alternative process for apportioning funds to “Shovel Ready” projects that have received unfunded approvals. The Priority in Funding (PIF) process was developed in response to significantly reduced available funds in the SFP as the state began to meter cash flows to the program due to the recession that began in 2008. The new process shortened the timeline for school districts to initiate construction, a 90-day commitment to be under contract, while only providing funding in amounts available from limited (twice yearly) state bond sales. Previously, funding was available for school construction on an ongoing basis.

In 2012, the state had exhausted bond funding for the SFP and the SAB took action to limit future funding applications. The Board continued to accept funding applications, but placed them on an “Acknowledged List” rather than processing them to provide an “Unfunded Approval,” which was the previous practice. Districts could still apply for state funding, but these applications were not guaranteed funding and if they were funded would be subject to the future statutes and regulations in place at the time of apportionment.

²⁶ Specifically, a district must provide evidence of at least one of the following: existing debt is at least 60% of the district’s bonding capacity, total bonding capacity is less than \$5 million, or evidence that the district held a successful school bond election in the past two years.

²⁷ The OPSC conducts an analysis of a district’s financial status to determine whether it is eligible for financial hardship status. The process involves a number of worksheets used to determine a district’s share (if any) of project costs.

In 2016, with the passage of Proposition 51, the state had its first new funding authority for the School Facility Program since 2006. However, the state has opted to access this bonding authority much more slowly than in previous years, despite the long unfunded Acknowledged List. The large backlog of Acknowledged List projects (>\$2.5 billion) plus ongoing and increasing funding applications have created a funding pipeline of more than \$3 billion as of January 2018. The state’s current pace of funding with Proposition 51 bonds has been less than \$1 billion in the first year. The current 2018 budget is proposing to maintain a similar slow pace of funding, with only about \$640 million (of \$7 billion) in Proposition 51 bond authority for 2018-19.²⁸ Prior to initiating project funding under Proposition 51, the SAB adopted new requirements to ensure accountability for use of state funds. These requirements include new local audits of state bond funded projects and adoption of an up-front consolidated “Grant Agreement” requirement for districts prior to receiving state funds for school construction.²⁹

Size and Distribution of School Facility Spending Since 1998

Between 1998 and 2016, approximately \$166 billion in capital funds were raised for the construction and modernization of California’s public school facilities. Of that, \$42.43 billion came from statewide general obligation bond issues and over \$113 billion came from local school bond issues. Additionally, another \$10.47 billion was raised by developer fees imposed by local school districts. Brunner (2006) describes the level and distribution of school facility funding in California from 1998 through 2005. In this section we update the analysis of Brunner (2006) by examining how the level and distribution of school facility funding has changed since 2005.

Level of School Facility Funding

Table 7 summarizes the total revenue made available to local school districts for new school construction and modernization projects from 1998-99 to 2015-16 broken down by source.³⁰ All revenue amounts reported in Table 7 and all subsequent tables are adjusted for

²⁸ See <https://www.acsa.org/Advocacy/advocacy-search/january-budget-proposal-2018-19-fiscal-year>. Also see <https://edsource.org/2017/brown-agrees-to-issue-first-school-bonds-this-fall/576870> for further information on the impetus behind the slower pace of funding.

²⁹ As stated on the Office of Public School Construction webpage: “At its June 5, 2017 meeting, the State Allocation Board (SAB) approved a template grant agreement and conforming School Facility Program (SFP) regulations as a result of the passage of the Kindergarten through Community College Public Education Facilities Bond Act of 2016 (Proposition 51) and the accountability measures in the Governor’s 2017-18 Budget. The grant agreement was developed as a way to address audit findings by the Office of Statewide Audits and Evaluation (OSAE) to improve oversight and accountability and also includes changes that align with the Governor’s 2017-18 Budget related to closeout audits. The grant agreement serves as a binding document that defines the responsibilities of funding applicants and the state from the determination of the amount of eligible state funding to the reporting of all project funds, including any savings achieved. It is also designed as a useful tool to ensure that the grantees receiving funds have a thorough understanding of the requirements in receiving the funds.” See: <https://www.dgs.ca.gov/opsc/Resources/GrantAgreements.aspx>.

³⁰ Data on the revenue available for school construction and modernization comes from the California Department of Education J200 and SACS reports.

inflation and reported in constant 2016 dollars. The first column of Table 7 lists the four major sources of revenue for school facility investments and the sum of those sources (total revenue).³¹ Columns 2 and 3 report the aggregate revenue raised and the percentage of total revenue from each source over the nine-year period 1998-2006. Columns 4 and 5 provide the same information for the nine-year period from 2007-2015. Over both time periods, local general obligation bond revenue constituted the single largest source of revenue available to school districts, making up 50% of total revenue from 1998-2006 and 65% of revenue from 2007-2015. Table 7 also illustrates the sharp decline in state aid and developer fees during the 2007-2015 period. As a result of those declines, total revenue for school facility investment in California was approximately 27 percent lower during the 2007-2015 period compared to the 1998-2006 period (\$66.22 billion versus \$93.72 billion).

Table 7. Sources of School Facility Revenues

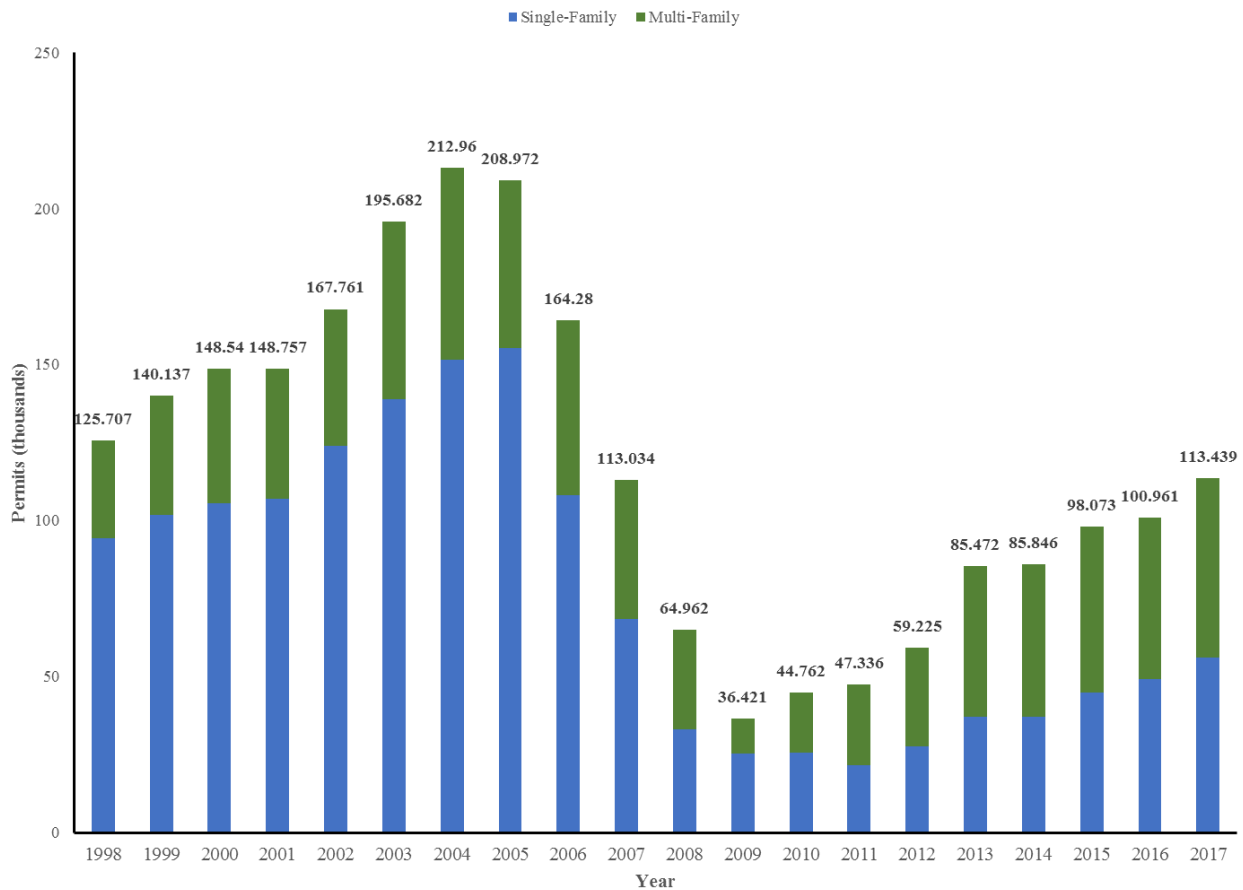
| Source | 1998-2006 | | 2007-2015 | |
|---------------------------------------|-------------------------------|------------|-------------------------------|------------|
| | Total Revenue (\$ Billion) | Percentage | Total Revenue (\$ Billion) | Percentage |
| Local G.O. Bonds | \$46.47 | 50 | \$44.28 | 65 |
| State Aid (State Bond Apportionments) | 29.94 | 32 | 13.04 | 19 |
| Developer Fees | 10.12 | 11 | 3.6 | 5 |
| Other | 7.06 | 7 | 7.28 | 11 |
| Total | \$93.72 | 100 | \$68.22 | 100 |

Notes: Data on school facility revenue comes from the J200 and SACS accounting records maintained by the California Department of Education. Revenue figures represent sum of revenue over relevant time period. Revenues are adjusted for inflation and reported in real 2016 dollars.

As previously noted, the decline in state aid is a result of no new statewide bonds being issued to support K-12 school facilities between 2007 and 2015. The decline in developer fees is most likely linked to the collapse in the housing market that accompanied the Great Recession. Specifically, as shown in Figure 4, annual production of new housing units increased steadily from 1998 through 2005 and then began to decline in 2006 with sharp declines in 2007, 2008 and 2009. Starting in 2010, annual production of new housing units began to recover; although, even by 2017, production had only recovered to 2007 levels.

³¹ The category “Other” includes revenue from: 1) successful Mello-Roos and SFID elections; 2) certificates of Participation (COPs) which represent short-term debt; 3) revenue from the sale or lease of land and/or buildings; 4) federal aid; and 5) other smaller sources of revenue.

Figure 4. Annual Production of New Housing Starts: 1998-2017



Source: State of California, Department of Finance:
http://www.dof.ca.gov/Forecasting/Economics/Indicators/Construction_Permits/

While statewide bond revenue and developer fees declined sharply between 2007 and 2015, local general obligation bond revenue has remained relatively stable, falling slightly from \$46.47 billion during the 1998-2006 period to \$44.28 billion during the 2007-2015 period. As a result, local general obligation bond revenue now constitutes a much larger share of total revenue, increasing from 50% during the 1998-2006 period to 65% in the most recent time period. This trend of local general obligation bond revenue comprising a larger share of total funding is not new. As noted by Brunner (2006), two other studies examined the composition of revenue for new school construction and modernization projects in California prior to 1998. Brunner and Rueben (2001) document that between 1992 and 1998, local general obligation bonds constituted approximately 32% of total facility funding. Similarly, the Legislative Analyst’s Office (2001) found that between 1987 and 1998 local G.O. bonds also constituted about 32% of total funding. The increased reliance on local G.O. bonds from 32% during the period prior to 1998 to 50% during the period from 1998-2006, is most likely due to the passage of Proposition 39 in 2000, which substantially increased the passage rate of local G.O. bond elections and the amount raised through those elections. In contrast, the increased reliance on local G.O. bond revenue in the most recent period is primarily due to declines in statewide bond revenue and developer fees.

Table 8. Facility Revenue Per-Pupil: By Source

| Revenue Source | Unified Districts | Elementary Districts | High School Districts |
|--------------------------------------|-------------------|----------------------|-----------------------|
| <u>Per-Pupil Revenue 1998 - 2006</u> | | | |
| Local G.O. Bonds | \$5,892 | \$4,568 | \$9,874 |
| State Aid | \$4,839 | \$4,715 | \$6,441 |
| Developer Fees | \$1,946 | \$1,754 | \$2,359 |
| Total | \$13,997 | \$11,802 | \$20,006 |
| Districts | 327 | 547 | 82 |
| Average Enrollment | 12,854 | 2,118 | 6,210 |
| <u>Per-Pupil Revenue 2007 - 2015</u> | | | |
| Local G.O. Bonds | \$6,144 | \$3,297 | \$9,367 |
| State Aid | \$2,231 | \$2,321 | \$2,121 |
| Developer Fees | \$631 | \$570 | \$708 |
| Total | \$10,048 | \$6,912 | \$12,942 |
| Districts | 340 | 506 | 72 |
| Average Enrollment | 12,874 | 2,298 | 7,587 |

Notes: Per-pupil revenue figures represent sum of revenues over relevant time period divided by average enrollment over time period. Revenues are adjusted for inflation and reported in real 2016 dollars. Increases in the number of unified districts and declines in the number of elementary and high school districts across time periods is due to district consolidation.

Table 8 summarizes the three largest sources of revenue and total revenue in terms of average revenue per-pupil. The top panel of Table 8 summarizes revenue per-pupil over the period 1998-2006 while the bottom panel summarizes revenue per-pupil over the period 2007-2015. The per-pupil revenue figures reported in the table represent the sum of all revenue raised between 1998 and 2006 (top panel) and 2007 and 2015 (bottom panel), divided by the average enrollment over the period. Revenue figures (in constant 2016 dollars) are reported separately for unified, elementary and high school districts.

Consistent with Table 7, Table 8 reveals that total revenue per-pupil available for school facility investments has declined during the more recent time period for all three types of school districts. Again, these declines are primarily due to the sharp declines in statewide bond revenue and developer fees. Also consistent with Table 7, local G.O. bond revenue per-pupil was relatively stable across the two time periods with the exception of elementary districts, which experienced a decline in local G.O. bond revenue from \$4,568 per-pupil during the 1998-2006 period to \$3,297 in the more recent period. However, it is important to note that these averages include a substantial number of school districts that raised no revenue through local G.O. bonds. For example, while unified, elementary and high school districts raised on average \$6,144, \$3,297 and \$9,367 per-pupil respectively in local G.O. bond revenue between 2007 and

2015, among districts with successful local G.O. bond elections, the average amount raised was substantially higher: \$8,491 per-pupil in unified districts and \$8,968 and \$12,488 per-pupil in elementary and high school districts respectively.

Distribution of School Facility Funding

The revenue averages reported in Table 8 mask wide variations in the distribution of school facility funding across districts. Table 9 illustrates how per-pupil revenue for new school construction and modernization projects is distributed across school districts over the period 2006-2015. The percentiles listed in the table are weighted by the number of students in each district. For example, 10% of students in unified school districts were enrolled in a district where total revenue per-pupil was less than \$3,915. For each type of school district, the first row gives the distribution of local general obligation bond revenue per-pupil. The second row shows how the distribution changes when state aid per-pupil is added to local G.O. bond revenue. Finally, the third row shows the distribution of total revenue per-pupil (local G.O. bond revenue plus state aid plus all other sources of revenue). For all three types of school districts, total revenue per-pupil at the 75th percentile is more than triple that of the 25th percentile. These large disparities are partly due to the distribution of local general obligation bond revenue across districts. For example, in unified school districts, local G.O. bond revenue at the 75th percentile is more than 3.5 times that of the 25th percentile.

Table 9. Distribution of Revenue Per-Pupil: 2006 – 2015

| Revenue Source | 10 | 25 | 50 | 75 | 90 |
|------------------------------|---------|---------|----------|----------|----------|
| Unified Districts | | | | | |
| Local G.O. Bonds | \$563 | \$3,387 | \$7,627 | \$12,712 | \$14,649 |
| Local G.O. Bonds + State Aid | \$1,624 | \$5,445 | \$9,624 | \$17,556 | \$18,335 |
| Total | \$3,915 | \$6,529 | \$11,038 | \$20,218 | \$20,365 |
| Elementary Districts | | | | | |
| Local G.O. Bonds | \$0 | \$0 | \$3,105 | \$6,998 | \$13,030 |
| Local G.O. Bonds + State Aid | \$0 | \$1,217 | \$5,450 | \$10,564 | \$14,715 |
| Total | \$568 | \$3,592 | \$6,796 | \$13,451 | \$17,855 |
| High School Districts | | | | | |
| Local G.O. Bonds | \$0 | \$2,739 | \$9,925 | \$14,211 | \$26,041 |
| Local G.O. Bonds + State Aid | \$2,191 | \$5,547 | \$11,632 | \$18,623 | \$29,994 |
| Total | \$3,673 | \$8,860 | \$13,277 | \$23,108 | \$30,414 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Percentiles are weighted by average district enrollment between 2006 and 2015. Revenues are adjusted for inflation and reported in real 2016 dollars.

The wide disparities in school facility funding across districts shown in Table 9, mirror the disparities found by Brunner (2006) over the period 1998-2005. For example, Brunner (2006) finds that the disparity in total revenue per-pupil between the 25th and 75th percentile was \$10,631, \$7,852 and \$11,046 per-pupil for unified, elementary and high school districts respectively. In Table 9, the disparity in revenue per-pupil between the 25th and 75th

percentiles for unified, elementary and high school districts are somewhat higher at \$13,689, \$9,859 and \$14,248, respectively. The fact that revenue disparities have grown larger during the 2006-2015 period is most likely due to the sharp declines in statewide bond revenue, which tends to partially mitigate the large disparities in local G.O. bond revenue.

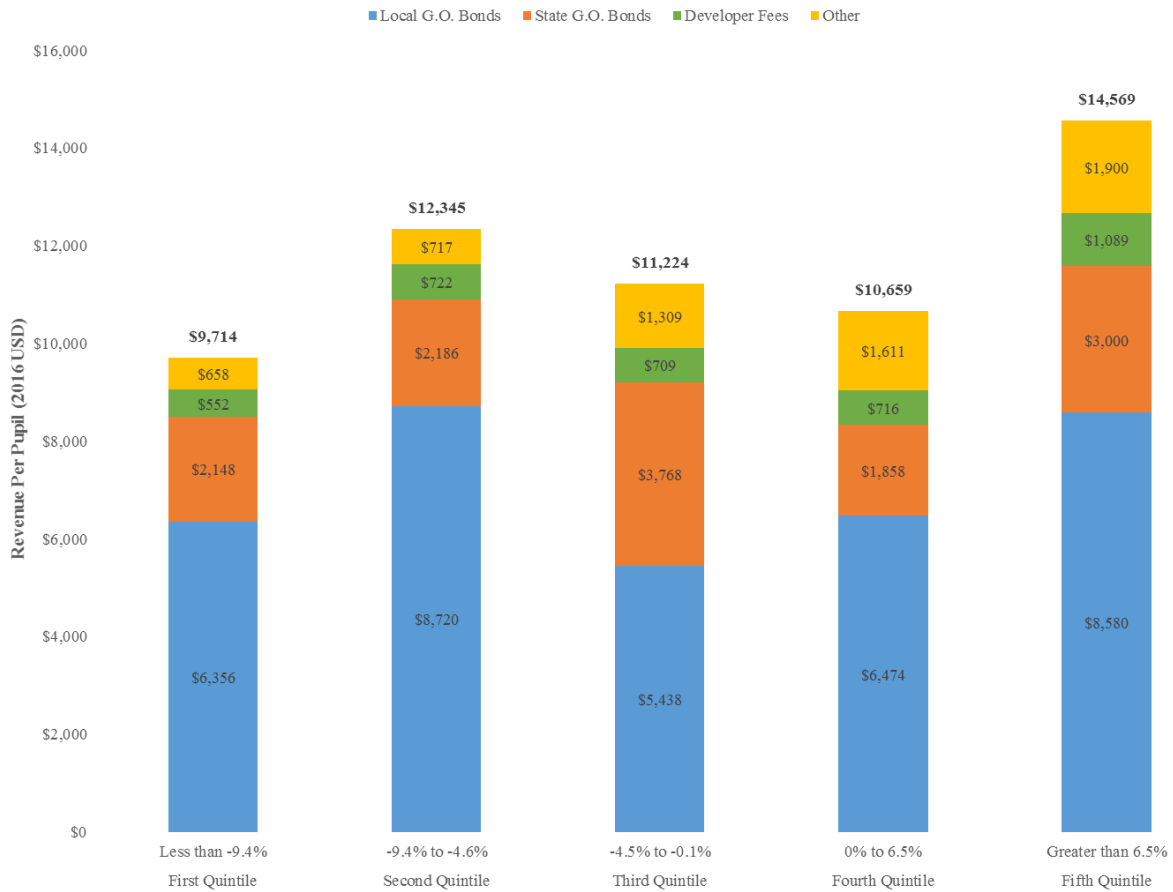
Explaining the Variation in School Facility Funding

This section examines some of the potential explanations for the wide variation in school facility funding across school districts. In contrast to current school spending, capital spending tends to be “lumpy,” due to the durable nature of school facilities. School districts often make large one-time investments in school construction and modernization followed by years of much smaller investments related to maintenance. As a result, part of the variation in school facility funding during any given time period may simply reflect differences in need across districts. However, variation in school facility investments may also reflect underlying differences in ability to pay. For example, high income districts and/or districts with high property wealth may be more willing and able to fund new school construction and modernization projects than less wealthy districts. Thus, we now turn to an examination of how school facility funding varies with observable measures of need and ability to pay.

Need and the Distribution of School Facility Funding

The need for school facility funding arises primarily for two reasons: 1) capacity constraints due to enrollment growth and 2) modernization/renovation needs due to the aging of the existing capital stock. Ideally, one would be able to capture variation across districts in capacity constraints using measures such as the number of unhoused students or school site density (density of students per usable acre). Similarly, variation across districts in modernization need could ideally be measured using the age of existing school buildings and a consistent measure of the physical condition of school buildings. Unfortunately, data on these objective measures of need are not collected consistently across all of California’s school districts. While information on the number of unhoused students, site density, and the age of school buildings is used by the Office of Public School Construction to determine eligibility for state aid, no systematic database contains information on these measures for all schools and districts.

Figure 5. Distribution of Revenue Per-Pupil by Quintiles of Enrollment Growth, Unified School Districts



Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. Enrollment growth is measured as percent change in district enrollment between 2005 and 2015.

While we do not have data on the ideal measures of need discussed above, we do have data on two proxies for need; namely, enrollment growth (a proxy for capacity constraints) and prior investments in school facilities (a proxy for modernization needs). For unified school districts, Figure 5 illustrates how per-pupil facility funding is related to the growth rate of district enrollment between 2006 and 2015. Specifically, the table shows how revenue per-pupil is distributed when school districts are separated into quintiles of enrollment growth.³² The quintiles listed in Figure 5 are weighted by student enrollment so that each quintile contains 20% of the total student enrollment. For example, 20% of students in unified school districts were enrolled in a district where enrollment growth was less than -9.4% (the first

³² In all tables and figures that examine the distribution of school facility funding, per-pupil revenue is measured as the sum of all revenue raised between 2006 and 2015 (measured in constant 2016 dollars) divided by the average enrollment over the time period. In addition, we omit Los Angeles Unified from this analysis to ensure that our quintiles are not affected by the large size of the district. Results that include Los Angeles Unified are qualitatively similar.

quintile). Similarly, 20% of students in unified districts were enrolled in a district where enrollment growth was greater than 6.5% (the fifth quintile). As Figure 5 reveals, school facility funding appears to be positively related to enrollment growth. Total revenue per-pupil averaged \$9,714 among districts in the first quintile of enrollment growth while it average \$14,569 among districts in the fifth quintile. Furthermore, all three of the largest sources of revenue for school facilities (local G.O. bond revenue, statewide bond revenue, and developer fees) tended to be higher among districts with the largest enrollment growth. As shown in Appendix Table 1A, among elementary districts, revenue per-pupil also tends to increase with enrollment growth. However, among high school districts, there appears to be little systematic relationship between enrollment growth and revenue per-pupil.

Overall, Figure 5 and Table 1A suggest a positive, although modest, relationship between enrollment growth and school facility revenue. Brunner (2006) found that over the period 1998-2005, school facility revenue was more closely linked to enrollment growth: districts with the highest enrollment growth rates tended to have significantly higher revenues. The more modest relationship between enrollment growth and facility revenue over the 2006-2015 period is most likely a consequence of stagnant to slightly declining overall enrollment in California over the time period. As a result, in comparison to the 1998-2005 period when enrollment was still rising in California, districts were less likely to face capacity constraints.

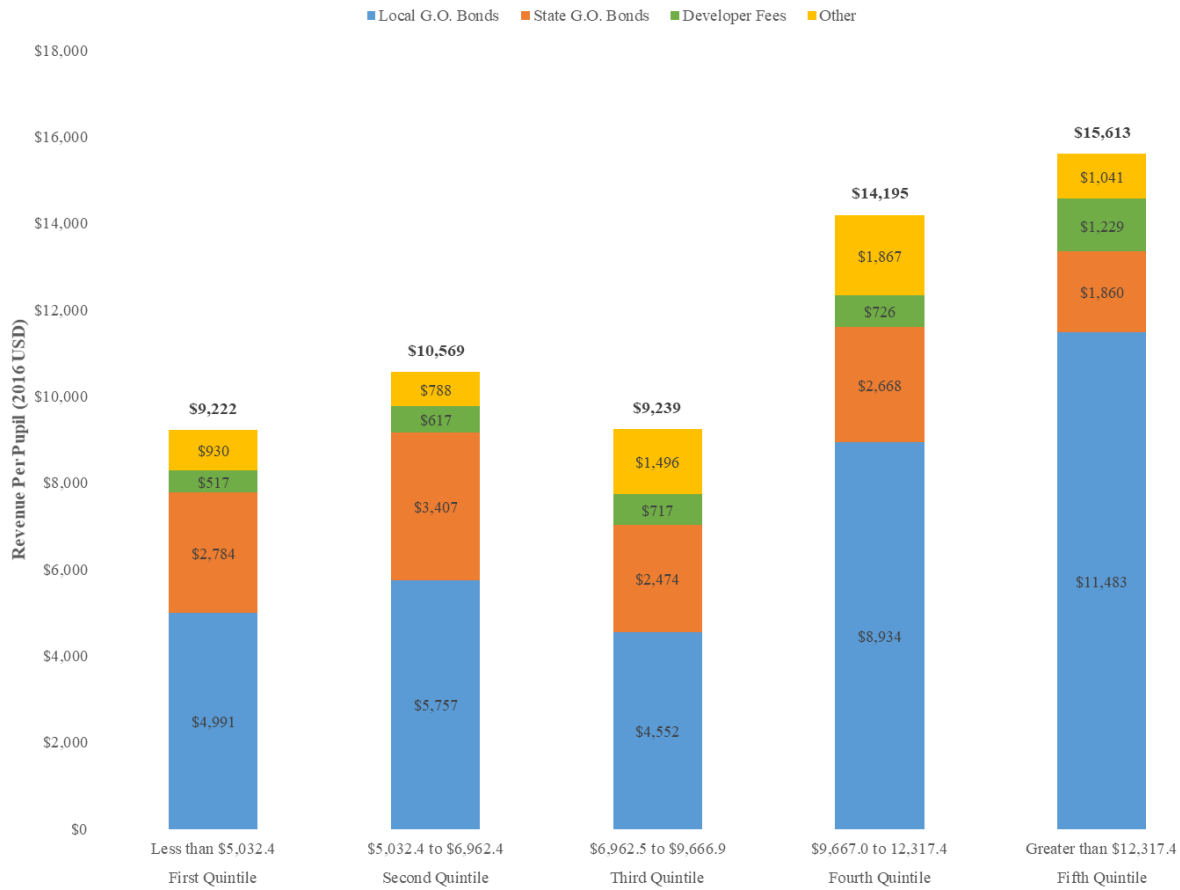
Figure 6 illustrates how revenue per-pupil is related to an alternative measure of need, namely the amount districts spent in previous years on school construction and modernization projects. Similar to Figure 5, Figure 6 shows how revenue per-pupil is distributed across school districts when districts are separated into quintiles of previous investment in school facilities. The quintiles are once again weighted by student enrollment. Previous school facility investment is measured as the sum of all school facility spending within a district from 1986 to 2005, adjusted for depreciation and divided by district enrollment in 2005. Specifically, for each school district, the aggregate value of school facility investment over the 20-year period spanning 1986 to 2005 is calculated as:

$$K_{2005} = \sum_{j=0}^{20} I_j * (1 - \delta)^{20-j},$$

where K_{2005} denotes the aggregate value of school facility investment as of 2005, I_j denotes school facility investment in year j (1986, ..., 2005), measured in constant 2016 dollars, and δ is the geometric rate of depreciation.³³

³³ Holtz-Eakin (1993) reports an estimate of the depreciation rate of non-residential state and local capital of 4.1%. We use his depreciation rate to calculate the aggregate value of school facility investment in prior years. Between 1986 and 2005, a number of California's elementary and high school districts were consolidated into unified districts. For those school districts, we used school district consolidation records, obtained from the California Department of Education, to identify the elementary schools and high schools that merged to form a new unified school district. For the years prior to the formation of a unified school district, we measured total capital outlay for that school district as the sum of all capital outlays made by the elementary and high school districts that eventually consolidated to form the unified district.

Figure 6. Distribution of Revenue Per-Pupil by Quintiles of Prior Facility Investments, Unified School Districts



Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. Prior facility investment represents sum of real total facility investments between 1986 and 2005 divided by district enrollment in 2005.

One would expect districts that invested heavily in school facilities in prior years would have less need for further investments. However, as Figure 6 illustrates, facility revenue per-pupil is highest among school districts with the largest prior investments in school facilities. This positive relationship is driven primarily by local G.O. bond revenue and developer fees, which are both substantially higher among districts in the fifth quintile of prior investment than among districts in the first or second quintile. As shown in Table 2A of the Appendix, among elementary and high school districts there appears to be no systematic relationship between prior facility investments and current facility funding. For elementary districts, total revenue per-pupil is relatively flat across quintiles while for high school districts, there is no consistent pattern in total revenue per-pupil across quintiles.

Collectively, Figures 5 and 6 and Appendix Tables 1A and 2A, suggest that the wide disparities in school facility funding illustrated in Table 9 are unlikely to be explained by differences across districts in enrollment growth or prior facility investments. As a result, we

now turn to examining how the distribution of school facility funding is related to measures of ability to pay for new school construction and modernization projects.

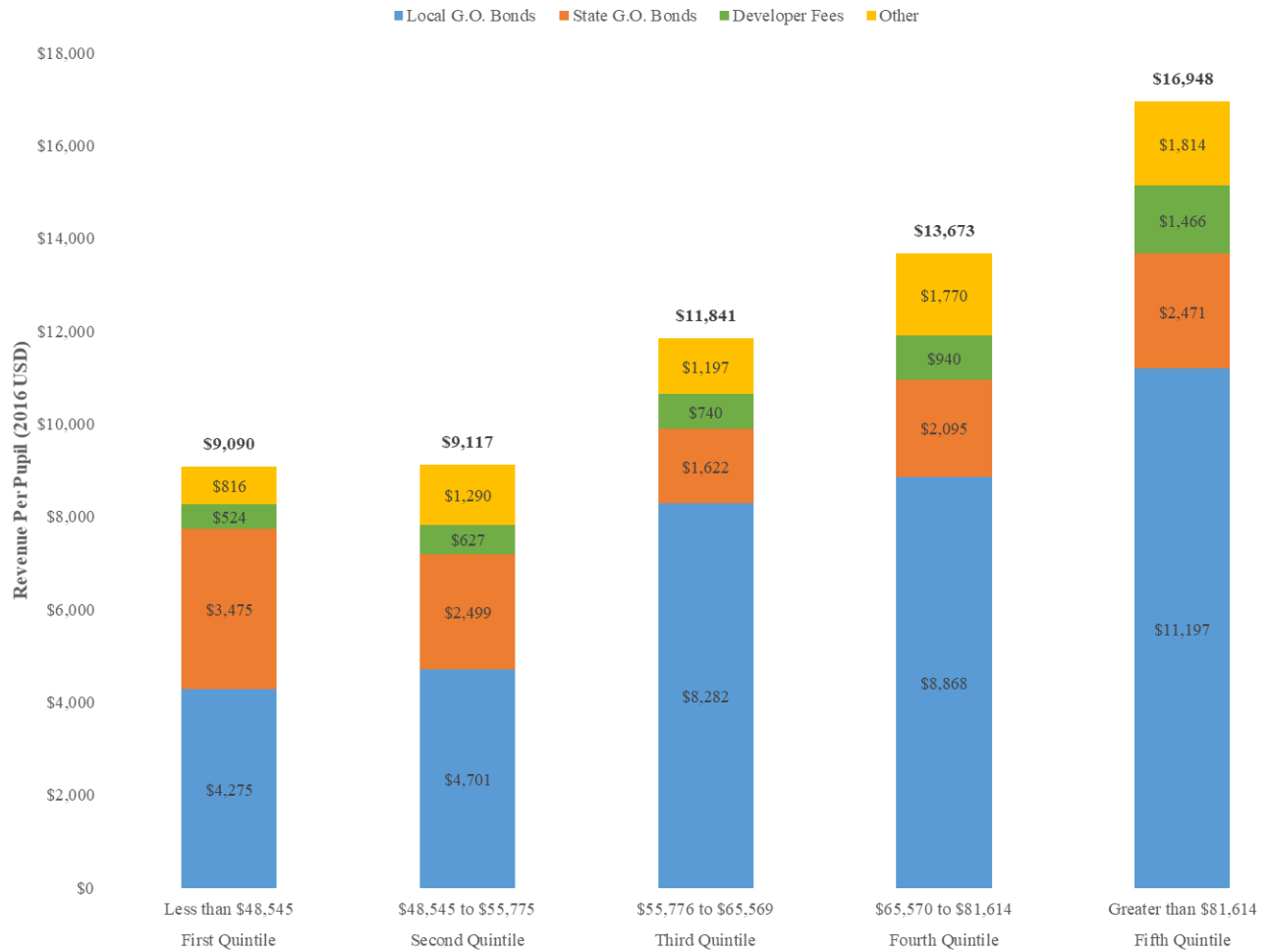
Ability to Pay and the Distribution of School Facility Funding

Figure 7 illustrates the distribution of revenue per-pupil when unified school districts are separated into quintiles based on median household income.³⁴ The quintiles are once again weighted by student enrollment. As Figure 7 reveals, there is a relatively strong positive relationship between median household income and revenue per-pupil: districts with the highest median household income tend to have substantially higher revenue per-pupil. For example, compared to districts in the bottom quintile of median household income, total revenue per-pupil was nearly twice as high among districts in the top quintile (\$16,948 vs. \$9,090). Figure 7 also illustrates that the strong positive relationship between total revenue per-pupil and median household income is driven primarily by the distribution of local G.O. bond revenue and developer fees. Both sources of revenue increase monotonically with income and spike among districts in the top income quintile. As shown in Appendix Table 3A, a similar strong positive relationship between facility revenue and median household income is seen among elementary and high school districts. Overall, the results reported in Figure 7 and Table 3A suggest that facility funding in California is relatively regressive.³⁵

³⁴ Data on the median household income of districts comes from special school district tabulations of the 2010-2014 American Community Survey (ACS) prepared by the U.S. Census Bureau and the National Center for Education Statistics.

³⁵ We use the term regressive to describe the fact that revenue for school facility investments tends to be lower among school districts with higher concentrations of lower income or disadvantaged students.

Figure 7. Distribution of Revenue Per-Pupil by Quintiles of Median Household Income, Unified School Districts



Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. Median Household Income comes from the special school district tabulations of the 2010-2014 American Community Survey.

Figure 7 suggests that part of the wide variation in school facility funding seen in Table 9, is likely due to variation across districts in the ability and willingness to pay for school construction and modernization. Not surprisingly, demand for school facility spending appears to increase with income. However, income is only one of the factors that affects the willingness and ability of districts to fund new school construction and modernization projects. The other primary factor is district property wealth. General obligation bonds are repaid with revenue raised from property tax overrides that remain in effect until the bonds are fully repaid. The reliance upon the local property tax to finance local G.O. bonds leads naturally to the question of how differences across districts in assessed value per-pupil affect the ability and willingness of districts to finance school facility spending locally.

Property wealth affects the ability of school districts to raise revenue through local general obligation bond elections in two distinct ways. First, school districts can only issue bonds up to their debt capacity limit, which is set at 1.25 percent of assessed value for elementary and secondary districts and 2.5 percent for unified school districts. Thus, debt limits may place an institutional constraint on the amount of bond revenue low-assessed value districts can raise. While debt capacity limits may not be binding for unified and high school districts, which tend to have relatively high limits, an analysis by the Coalition for Adequate School Housing (CASH) suggests that these debt capacity limits may significantly constrain the ability of many elementary districts from raising funds through general obligation bond issues (CASH, 1997). Second, differences across districts in assessed value per-pupil directly affect the tax-price of school facility spending. The tax-price is the additional property tax burden a homeowner faces when spending per-pupil is increased by one dollar. That tax-price equals the assessed value of a voter's home divided by the district's total assessed value per-pupil. Note that the tax-price of school facility spending is inversely related to the assessed value of property within a district. Thus, all else equal, districts with higher assessed value per-pupil face a lower tax-price which may manifest itself in a higher demand for school facility spending.³⁶

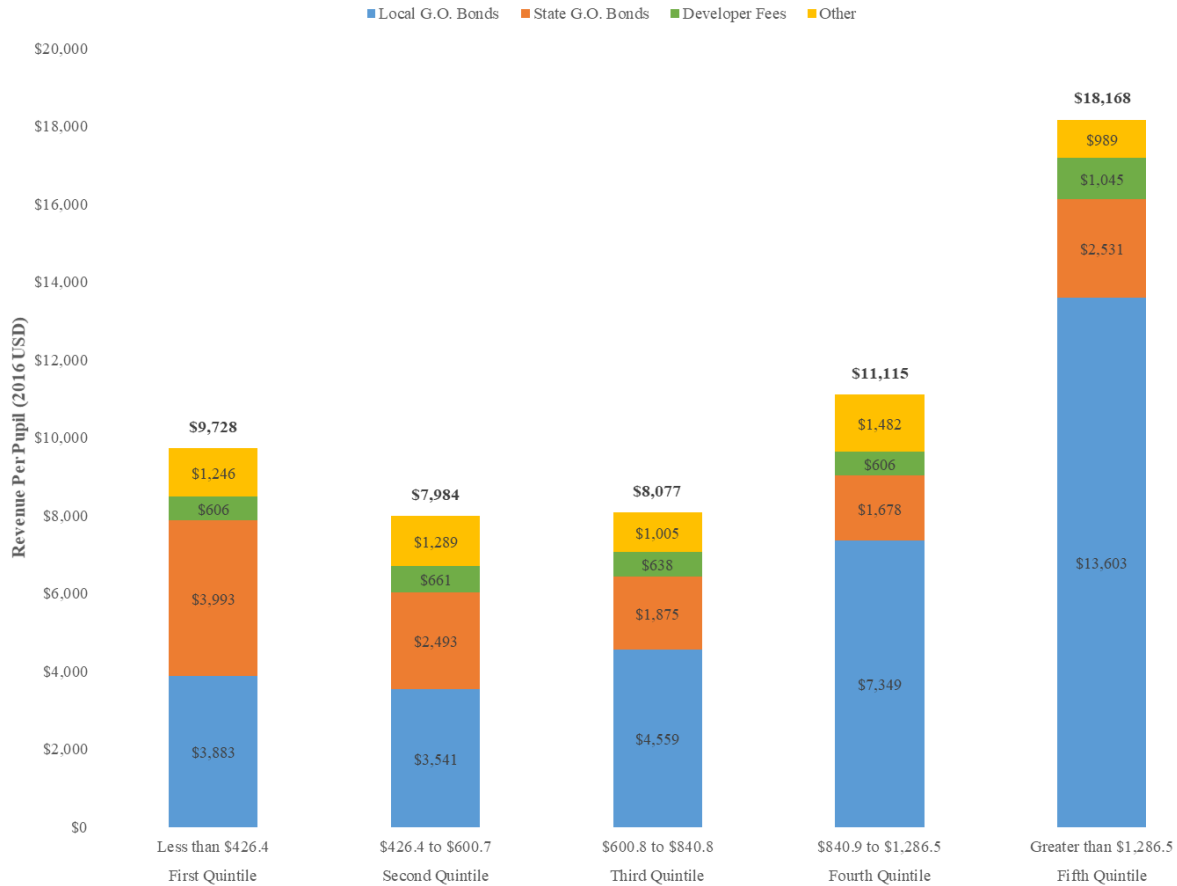
Figure 8 illustrates the relationship between school facility funding and assessed value per-pupil, when unified school districts are separated into quintiles of assessed value per-pupil.³⁷ Similar to the relationship between facility funding and income, there is a strong positive relationship between total revenue per-pupil and district wealth: districts in the highest quintile of assessed value tend to have significantly higher total revenue per-pupil. The positive relationship between facility revenue and assessed values is driven by the relationship between local G.O. bond revenue and assessed value: local G.O. bond revenue increases rather steadily with assessed values. As a result, compared to districts in the first quintile of assessed value per-pupil, local G.O. bond revenue is over three times higher among districts in the top quintile, a trend also found by Vincent and Jain (2015). The strong positive relationship between local bond revenue and assessed values is partially offset by state aid, which is highest among districts with the lowest assessed values. This nonlinear relationship between state aid and assessed values likely reflects the fact that lower property wealth districts are more likely to qualify for financial hardship aid. Nevertheless, given that state aid is allocated on a matching grant basis, districts in the top quintile of assessed value received more state aid on average than districts in the second, third or fourth quintiles. As shown in Appendix Table 4A, similar

³⁶ Note that the tax-price of school spending may differ across school districts for other reasons as well. First, holding the assessed value of property within districts constant, districts with lower enrollments will have a higher assessed value per-pupil and thus face a lower tax-price. Second, all else equal, residents in districts with a higher percentage of nonresidential property will face a lower tax-price since some of the additional tax burden necessary to finance an increase in facility spending is shifted to the owners of nonresidential property.

³⁷ The quintiles reported in Figures 8 are once again weighted by district enrollment. Data on school district assessed values in 2017 was prepared by Eastshore Consulting LLC. Assessed value reflects the valuation utilized for calculation of General Obligation Bond tax rates and bonding capacity limitations.

disparities in total and local G.O. bond revenue per-pupil across quintiles exist for elementary and high school districts.

Figure 8. Distribution of Revenue Per-Pupil by Quintiles of Assessed Value Per-Pupil, Unified School Districts



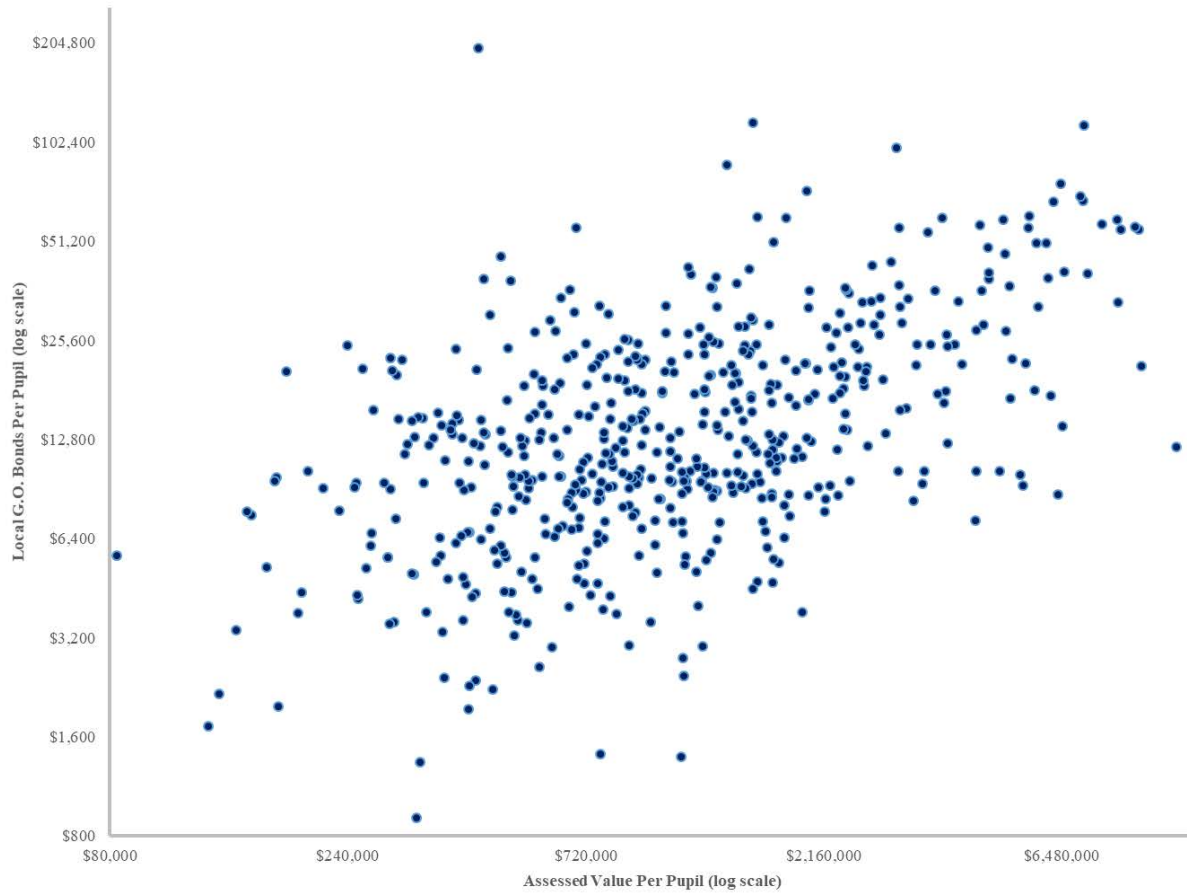
Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. Districts assessed value per-pupil is for fiscal year 2017.

The relationship between assessed value per-pupil and local bond revenue per-pupil is illustrated more clearly in Figure 9. The vertical axis gives local G.O. bond revenue per-pupil for those districts that held a successful local bond election between 2006 and 2016, while the horizontal axis gives the assessed value per-pupil in those districts.³⁸ Here, we combined all districts (unified, elementary and high school district) when illustrating the relationship between assessed value and local G.O. bond revenue. Figure 9 illustrates a strong positive relationship between assessed value per-pupil and local bond revenue per-pupil. Furthermore, as Figure 8 reveals, this strong positive relationship between assessed value and local bond

³⁸ In Figure 9, local G.O. bond revenue per-pupil and assessed value per-pupil are both measured in logarithmic form to create the figure. The amounts reported on the vertical and horizontal axis, convert corresponding logarithmic amounts to dollar amounts for ease of interpretation.

revenue translates directly into a strong positive relationship between assessed value and total revenue per-pupil.

Figure 9. Assessed Value Per-Pupil and Local G.O. Bond Revenue Per-Pupil



Notes: Local G.O. bond revenue per-pupil represents total local bond revenue over the period 2006-2015 divided by average district enrollment over the same period. Districts assessed value per-pupil is for fiscal year 2017.

Figures 10-13 examine how school facility funding is related to four final measures of interest to policymakers; namely, the percentage of disadvantaged students, the percentage of students that are nonwhite, district enrollment, and whether a district is classified as residing in a city, a suburb, a town or a rural area. We measure the percentage of disadvantaged students in a district as the unduplicated pupil count (UPC) of free or reduced-price meal (FRPM), English learner (EL), and foster youth students divided by total enrollment within a district. We measure the percentage of nonwhite students as one minus the fraction of non-Hispanic white students in a district.³⁹ Finally, we use urban classification codes provided by the National

³⁹ Both measures were obtained from the California Department of Education and are based on 2015 pupil counts.

Center for Education Statistics to classify districts according to whether they reside in a city, a suburb, a town or a rural area.⁴⁰

Figure 10. Distribution of Revenue Per-Pupil by Quintiles of Share Disadvantaged Students, Unified School Districts



Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. Share Disadvantaged Students represents the unduplicated pupil count (UPC) of free or reduced-price meal (FRPM), English learner (EL), and foster youth students in 2015 divided by total enrollment within a district.

Figure 10 illustrates how revenue per-pupil is distributed across school districts when districts are separated into quintiles based on the percentage of disadvantaged students.⁴¹ As the figure makes clear, there are rather large disparities in revenue per-pupil between districts

⁴⁰ The NCES classifies districts as a city district if it is inside an urbanized area and inside a principal city. Districts are classified as a suburb if they are outside a principal city and inside an urbanized area and as a town if they are inside an urban cluster but outside an urbanized area. Finally, districts are classified as rural if they are in a Census-defined rural territory. See: https://nces.ed.gov/programs/edge/docs/NCES_LOCALE_USERSMANUAL_2016012.pdf.

⁴¹ The quintiles reported in Figures 10 and 11 are weighted by district enrollment.

with the lowest (1st quintile) and highest (5th quintile) concentrations of disadvantaged students. Local G.O bond revenue per-pupil is over \$5,000 higher among districts in the 1st quintile compared to districts in the 5th quintile.⁴² While state aid tends to offset some of the disparities in local G.O. bond revenue across quintiles, total revenue per-pupil is nevertheless more than \$6,000 higher among districts in the 1st quintile compared to districts in the 5th quintile. Thus, similar to Figure 7, Figure 10 suggests that facility funding in California is relatively regressive. As shown in Table 5A of the Appendix, a similar pattern holds for elementary and high school districts.

Figure 11 provides the same information as Figure 10 except the quintiles are now based on the percentage of nonwhite students in a district. With the exception of the top quintile, there appears to be no systematic relationship between local G.O. bond revenue or total revenue per-pupil and the percentage of nonwhite students. However, districts with the highest percentage of nonwhite students tend to have lower local G.O. bond revenue and developer fees than districts in other quintiles. As a result, total revenue per-pupil tends to be significantly lower among districts with the highest percentage of nonwhite students. As shown in Table 6A of the Appendix, a similar pattern holds for elementary districts but among high school districts, there is no systematic relationship between facility revenues and the percentage of nonwhite students.

⁴² This is perhaps not too surprising given the strong negative correlation between median household income and the percentage of disadvantaged students (-0.77).

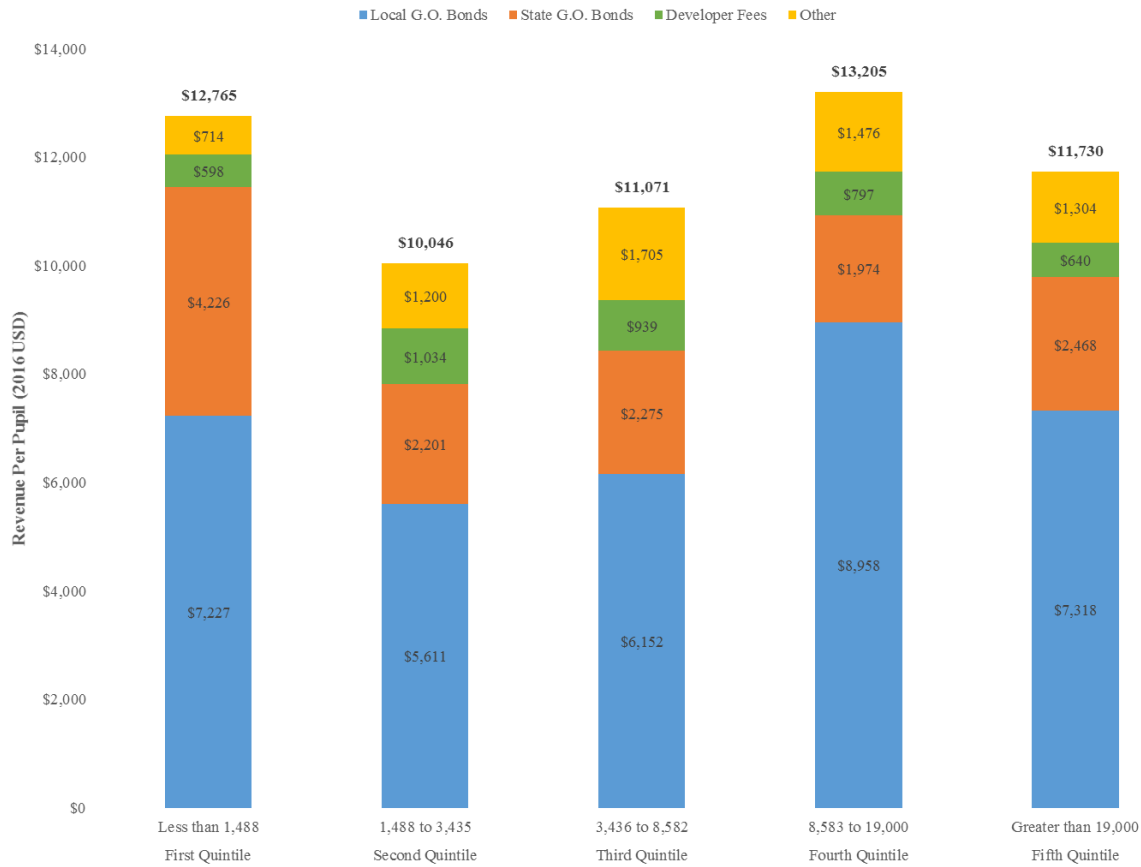
Figure 11. Distribution of Revenue Per-Pupil by Quintiles of Share Nonwhite Students, Unified School Districts



Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. Share Nonwhite Students is constructed as one minus the fraction of non-Hispanic white students in a district in 2015.

Figure 12 illustrates how revenue per-pupil among unified districts is distributed when districts are portioned into quintiles of district enrollment (i.e., district size). Here we do not weight by district enrollment so that each quintile contains 20% of all unified districts in the state. There appears to be little systematic relationship between local G.O. bond revenue or total revenue per-pupil and district enrollment. As shown in Table 7A of the Appendix, for high school districts there also appears to be no systematic relationship between revenue per-pupil and district enrollment. However, among elementary districts, districts in the first quintile of enrollment (smallest districts) have substantially lower local G.O. bond revenue and total revenue per-pupil than districts in other quintiles. We note, however, that districts in the first quintile tend to be very small with enrollments ranging from 6 to 134 students. As a result, these districts contain a very small fraction of the state’s total K-12 enrollment.

Figure 12. Distribution of Revenue Per-Pupil by District Enrollment, Unified School Districts

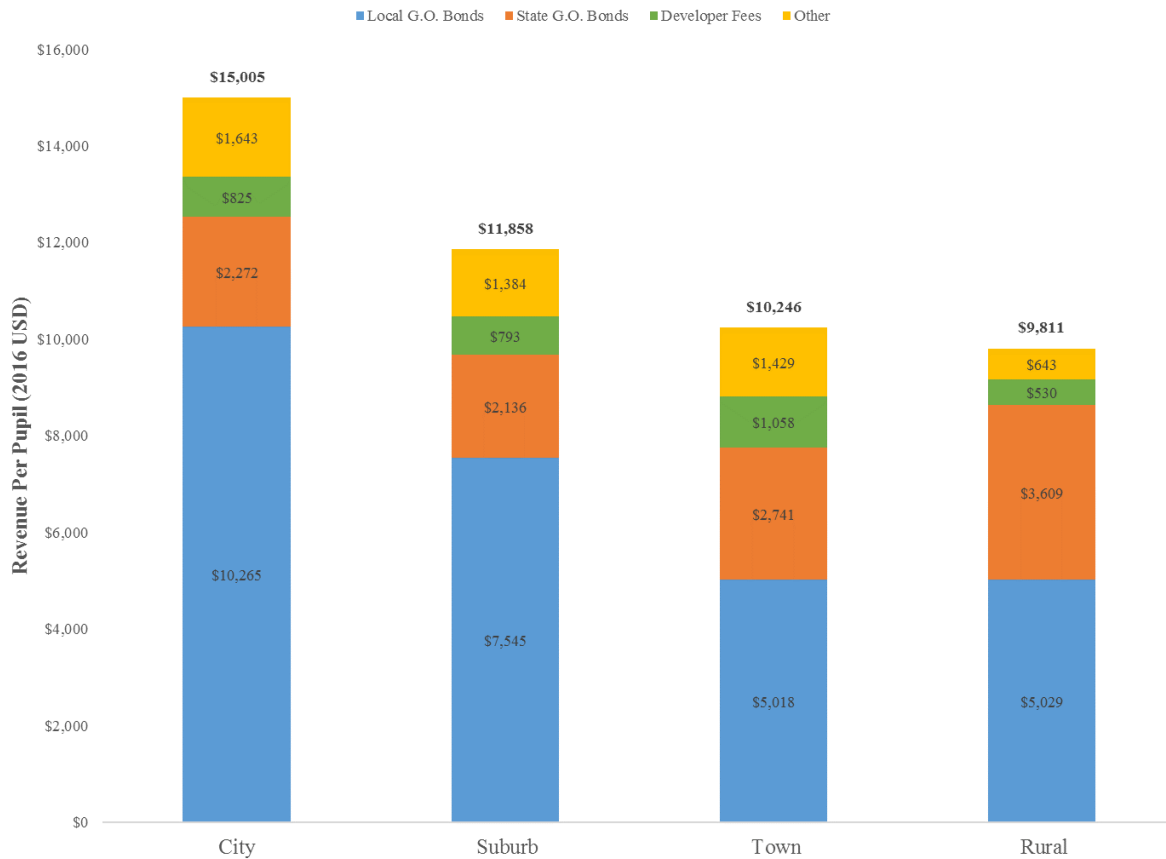


Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. District enrollment is measured as average district enrollment over the 2006-2015 period.

Figure 13 compares school facility revenue among unified districts located in cities, suburbs, towns and rural areas respectively. Total revenue per-pupil is highest among districts located in cities and lowest among districts located in rural areas.⁴³ The differences in total revenue are driven primarily by differences in local G.O. bond revenue; with districts located in cities having the highest local G.O. bond revenue and districts located in towns and rural areas having the lowest local G.O. bond revenue. The differences in local G.O. bond revenue across districts located in cities and rural areas is partially offset by state aid: districts in rural areas receive substantially more state aid than other districts. As shown in Table 8A of the Appendix, elementary and high school districts located in rural areas also tend to have lower local G.O. bond revenue and total revenue per-pupil than other districts.

⁴³ It is possible that school construction costs may differ by community type, which would play a part in driving revenue amounts or state aid apportionment totals. However, in this study we do not adjust for within state regional construction cost differences. To our knowledge, reliable data to do so do not exist.

Figure 13. Distribution of Revenue Per-Pupil by Urbanicity, Unified School Districts



Notes: Revenue per-pupil figures represent total revenue by source over the period 2006-2015 divided by average district enrollment over the same period. Data on urbanicity comes from the National Center for Education Statistics (NCES) school district classification codes.

Relationship Between District Property Wealth and Other District Characteristics

Figures 7-11 suggest that school facility revenue is highest among districts with the highest median household incomes and the highest property-wealth per-pupil. They also suggest that school facility revenue tends to be lowest among districts with the highest percentage of disadvantaged and nonwhite students. One possible explanation for these patterns is that property-wealth is positively correlated with household income and negatively correlated with the share on disadvantaged or minority students. If that were the case, then the patterns seen in Figures 7-11 could all be related (at least to some degree) to differences in ability to pay for school facilities, as measured by assessed value per-pupil.

Table 10. Characteristics of Districts by Quintiles of Assessed Value Per-Pupil

| Characteristic | First Quintile Less than \$472 | Second Quintile \$472 to \$674 | Third Quintile \$675 to \$1,024 | Fourth Quintile \$1,025 to \$1,446 | Fifth Quintile Greater than \$1,446 |
|----------------------------|-----------------------------------|-----------------------------------|------------------------------------|---------------------------------------|--|
| Median Income | \$45,301 | \$53,799 | \$59,595 | \$64,535 | \$73,628 |
| Percent Poor | 75.51% | 67.29% | 59.52% | 57.12% | 45.41% |
| Percent Non-Hispanic White | 24.20% | 28.46% | 39.51% | 37.94% | 51.67% |
| Percent Hispanic | 63.21% | 54.30% | 45.11% | 43.50% | 31.19% |
| Percent Black | 3.84% | 4.46% | 2.58% | 2.88% | 1.79% |
| Enrollment Growth | 4.20% | 1.89% | 0.00% | -1.88% | -5.22% |
| City | 0.16 | 0.16 | 0.15 | 0.22 | 0.15 |
| Suburb | 0.32 | 0.34 | 0.36 | 0.35 | 0.31 |
| Town | 0.24 | 0.23 | 0.15 | 0.11 | 0.13 |
| Rural | 0.28 | 0.27 | 0.34 | 0.32 | 0.41 |

Notes: Assessed value per pupil is for 2017 and is reported in 1,000s of dollars. Quintiles are weighted by district enrollment. Enrollment growth is measured as percent change in district enrollment between 2005 and 2015. Urbanicity designation comes from the NCES locale code. City, Suburb, Town and Rural are indicator variables for whether a school district is located in a primary city, a suburb of a primary city, a town outside a primary city, or a Census designated rural area, respectively.

To examine that possibility Table 10 illustrates how the characteristics of school districts vary when districts are sorted into quintiles of assessed value per-pupil. The quintiles reported in Table 10 are once again weighted by student enrollment such that each quintile contains 20% of all students. Here we focus on all school districts rather than reporting separate results by district type.⁴⁴ The pattern of results in Table 10 is rather striking. Enrollment growth is concentrated in lower assessed value districts, while household income and the share of non-Hispanic white students vary positively with assessed value. In fact, median household income increases continuously across quintiles while the share of disadvantaged students, the share of Hispanic students and enrollment growth decline continuously across quintiles. Districts in the highest quintile of assessed value also tend to have substantially lower percentages of Black students than districts in other quintiles. Finally, there is little evidence that urbanicity varies systematically across assessed value quintiles.

Overall, the results reported in Table 10 suggest that characteristics of school districts, such as household income, the share of disadvantaged students, and the share of nonwhite students are all correlated with district assessed values. Thus, the results reported in Table 10 provide one explanation for the general pattern of results found in Figures 7-11: because assessed values are positively correlated with household income and negatively correlated with the share of disadvantaged or nonwhite students, school facility revenue also varies with these other important characteristics of districts.⁴⁵

Regression Analysis

Table 9 along with Figures 5-13 suggest that disparities in school facility funding across districts are primarily driven by the distribution of local G.O. bond revenue. In this section, we

⁴⁴ If one stratifies the sample based on whether a district is a unified, elementary or high school district, the pattern of results for all three types of school districts looks quite similar to the pattern shown in Table 10.

⁴⁵ The simple student-weighted correlation between assessed value per-pupil and household income is 0.49, while the correlation between assessed value per-pupil and the share of disadvantaged and nonwhite students is -0.50 and -0.37, respectively.

therefore turn to multivariate regression analysis to examine the determinants of local G.O. bond revenue. Here we focus on all local G.O. bond revenue raised between 1998 – 2015, which corresponds to the entire time period since the inception of the School Facility Program in California.

Table 11. Local G.O. Bond Regression Estimates

| Variable | (1) Probability of Successful Bond Election | (2) Local G.O. Bond Revenue Per-Pupil |
|--------------------------|---|---|
| Assessed Value Per-Pupil | 0.109*** (0.0211) | 0.722*** (0.0664) |
| Median Income | -0.00243 (0.0550) | 0.257** (0.126) |
| Enrollment | 0.108*** (0.0124) | 0.0566* (0.0303) |
| Enrollment Growth | 0.129*** (0.0363) | 0.273*** (0.0896) |
| Share Hispanic Students | 0.0620 (0.0584) | 0.0288 (0.132) |
| Share Black Students | -0.114 (0.179) | 1.716*** (0.479) |
| Share Pop. 65 or Older | -0.492* (0.281) | -0.775 (0.912) |
| Share Homeowners | 0.0993 (0.124) | -0.639** (0.290) |
| Rural District | -0.176*** (0.0439) | 0.0282 (0.0987) |
| Elementary District | -0.108*** (0.0287) | -0.353*** (0.0730) |
| High School District | -0.0869* (0.0495) | -0.175* (0.103) |
| Observations | 905 | 624 |
| R-squared | 0.439 | 0.463 |

Notes: Dependent variable in column 1 is an indicator that takes the value of unity if a district had a successful local bond election between 1998 and 2015. Dependent variable in columns 2 is the log of local bond revenue per-pupil between 1998 and 2015, conditional on having a successful local bond election. Assessed value per-pupil, median income, and enrollment are measured in logs. Enrollment is measured as average district enrollment between 1998 and 2015. Enrollment growth represents percent change in enrollment between 1998 and 2015. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 11 reports coefficient estimates from regressions designed to explain: 1) the probability of ever having a successful local G.O. bond election and 2) the amount of local G.O.

bond revenue raised per-pupil, conditional on having a successful election. The dependent variable in column 1 is an indicator variable that takes the value of unity (zero otherwise) if a district ever had a successful G.O. bond election between 1998 and 2015. The estimates reported in column 1 are linear probability estimates implying the estimated coefficients can be directly interpreted as marginal effects. The dependent variable in column 2 is the log of local G.O. bond revenue per-pupil, conditional on ever having a successful local bond election.⁴⁶ We use the same set of explanatory variables in each specification. Those variables are: 1) the log of assessed value per-pupil; 2) the log of median household income; 3) the log of district enrollment; 4) the growth rate of enrollment between 1998 and 2015; 5) the share of students that are Hispanic; 6) the share of students that are Black; 7) the share of the population age 65 or older; 8) the share of homeowners; and 9) an indicator variable for districts located in a rural area. We also include two indicator variables that take the value of unity (zero otherwise) if a district is an elementary or a high school district. All of these variables are designed to capture demographic and economic characteristics of school districts that have been found to influence both the probability of having a successful local G.O. bond election and the amount of revenue raised through local bond elections.⁴⁷

Turning first to column 1, our results suggest that the probability of ever having a successful local G.O. bond election is positively related to a district's assessed value per-pupil, enrollment and enrollment growth and negatively related to the share of the population age 65 or older (a proxy for individuals with low demand for school spending). Our results also suggest that districts located in rural areas are approximately 17 percentage points less likely to ever have held a successful local bond election. Similarly, elementary districts, and to a lesser extent high school districts are also less likely to have ever held a successful local bond election relative to unified school districts.

Turning to the results reported in column 2, our results suggest that the amount of revenue raised from local G.O. bond elections (conditional on ever having had a successful bond election) is also positively related to assessed value per-pupil, enrollment and enrollment growth. Furthermore, consistent with column 1, the amount of revenue raised through local G.O. bond elections is lower in elementary and high school districts relative to unified districts. Finally, in contrast to the results reported in column 1, there is a positive and statistically significant relationship between local G.O. bond revenue per-pupil and household income.

In summary, the results reported in Table 11 suggest that both the probability of having a successful bond election and the amount of bond revenue raised (conditional on having a successful bond election) are positively related to assessed value per-pupil. Thus, consistent with our previous results, assessed value per-pupil appears to be an important factor explaining disparities in facility revenue across districts. Furthermore, recall from Table 10 that assessed value per pupil is positively related to household income and the share of non-Hispanic white

⁴⁶ We construct local G.O. bond revenue per-pupil by dividing the sum of all local bond revenue raised between 1998 and 2015 by average district enrollment over the period 1998-2015.

⁴⁷ See for example, Balsdon, Brunner & Rueben (2003), Wang, Duncombe & Yinger (2011) and Zimmer et al. (2011).

students and negatively related to the share of disadvantaged students. As a result, school facility funding in California tends to be relatively regressive.

Table 12. Predicted Local G.O. Bond Revenue Per-Pupil

| Variable | Predicted Revenue 25 th Percentile | Predicted Revenue 75 th Percentile | 75 th - 25 th |
|--------------------------|--|--|-------------------------------------|
| Assessed Value per Pupil | 8,651 | 19,956 | 11,305 |
| Income | 10,892 | 12,503 | 1,612 |
| Enrollment | 10,538 | 12,278 | 1,740 |
| Enrollment Growth | 10,932 | 12,246 | 1,314 |

To more clearly see how assessed value per-pupil, income, enrollment and enrollment growth affect the distribution of local bond revenue per-pupil, Table 12 presents the predicted level of local G.O. bond revenue per-pupil calculated using the coefficient estimates reported in column 2 and of Table 11. Specifically, Table 12 shows how moving from the 25th percentile of a given variable to the 75th percentile of that variable affects the level of local bond revenue per-pupil while holding all other variables at their means. As the table reveals, differences in assessed value across districts have large effects on local bond revenue per-pupil. All else equal, moving from the 25th to the 75th percentile of assessed value per-pupil leads to a \$11,305 increase in local bond revenue per-pupil (conditional on districts having had a successful local bond election). Differences in income, enrollment and enrollment growth have much smaller effects on the distribution of local bond revenue per-pupil. For example, moving from the 25th to the 75th percentile of median household income leads to a \$1,612 increase in local bond revenue per-pupil. Thus, once again, Table 12 makes clear that assessed value per-pupil is a primary driver of inequities in local G.O. bond revenue per pupil and subsequently on total facility revenue per-pupil.

Characteristics of Districts Receiving School Facility Program Funding

The previous section demonstrated that wealthier districts, measured both in terms of property wealth and household income, tended to have higher local G.O. bond revenue and total revenue per-pupil for school facility projects than other districts. The disparities in school facility funding between high- and low-wealth districts have led to concerns that California’s School Facility Program (SFP), which operates on a first-come, first-served basis, tends to favor wealthier and larger districts that are able to apply more quickly for state funding (LAO, 2015; Vincent 2012). This section examines the distribution of SFP funding in more detail in order to shed light on this concern. Specifically, we examine how funding for the three largest programs in the SFP (new construction, modernization and critically overcrowded schools), is distributed across school districts.

Table 13 illustrates how funding for the SFP’s New Construction program is distributed across school districts. The first column lists a number economic and demographic characteristics of school districts and the sources of school facility revenue. The second column provides the means of the characteristics listed in column 1 for school districts that did not

participate in the New Construction program over the period 1998 – 2017. Columns 3-7 separate districts that received SFP new construction funding into quintiles of the amount of SFP funding received. Here, we do not weight by student enrollment so that each quintile contains 20% of districts that received new construction funding. The data used to construct Table 13 and the following two tables was obtained from the Office of Public School Construction and represents the total state apportionment from November 1998 through December 15, 2017. The per-pupil revenue figures reported in Table 13 and the subsequent two tables represent the sum of all program-specific state aid received by districts between 1998 and 2017, divided by the average enrollment over the time period. All revenue figures are once again reported in constant 2016 dollars.

Table 13. Characteristics of Districts Receiving SFP New Construction Funding by Quintiles of Funding, 1998-2017

| | No Aid | First Quintile Less than \$925 | Second Quintile \$925 - \$1,855 | Third Quintile \$1,856 - \$3,956 | Fourth Quintile \$3,957-\$7,103 | Fifth Quintile Greater than \$7,103 |
|--|-------------|-----------------------------------|------------------------------------|-------------------------------------|------------------------------------|--|
| <i>Characteristics</i> | | | | | | |
| Assessed Value per Pupil | \$2,023,094 | \$1,538,728 | \$1,236,093 | \$1,312,675 | \$1,253,008 | \$1,171,881 |
| Median Income | \$62,782 | \$67,086 | \$64,062 | \$60,957 | \$59,170 | \$60,332 |
| Percent Nonwhite | 53.05% | 65.90% | 63.53% | 66.76% | 69.15% | 64.28% |
| Percent Poor | 54.54% | 57.46% | 57.80% | 60.48% | 64.12% | 60.30% |
| Enrollment | 2,503 | 9,985 | 11,636 | 8,864 | 8,781 | 5,372 |
| Enrollment Growth | -8.15% | -0.98% | -1.76% | 10.16% | 17.88% | 34.07% |
| <i>Facility Funding</i> | | | | | | |
| Local Bond Revenue Per-Pupil | \$9,916 | \$12,509 | \$10,536 | \$12,412 | \$13,001 | \$9,970 |
| State Aid Per-Pupil | \$2,929 | \$3,928 | \$4,133 | \$5,828 | \$8,436 | \$19,278 |
| Total Revenue Per-Pupil | \$15,448 | \$19,639 | \$18,298 | \$23,448 | \$26,840 | \$37,588 |
| New Construction Apportionment Per-pupil | \$0 | \$477 | \$1,419 | \$2,881 | \$5,446 | \$15,437 |
| Observations | 339 | 89 | 75 | 98 | 102 | 158 |

Notes: Data on SFP funding from 1998-2017 by program comes from the California Office of Public School Construction. Per-pupil facility funding revenue figures represent total funding between 1998-2015 divided by average enrollment over the same time period. All figures are reported in constant 2016 dollars. Enrollment growth is measured as the percentage change in district enrollment between 1998 and 2015. Quintiles are unweighted such that 20% of all districts that received any new construction funding over the time period are contained in each quintile. Quintiles are based on per-pupil new construction funding between 1998 and 2017.

As Table 13 reveals, there is little evidence that SFP funding for new construction is allocated primarily to wealthier districts. On average, districts that did not participate in the New Construction program actually have the highest assessed value per-pupil while districts that received the most funding (fifth quintile) have the lowest assessed value per-pupil. In fact, the assessed value per-pupil of districts that did not participate in the New Construction program is almost twice as high as the assessed value of districts that received the most funding from the program. Furthermore, the percentage of disadvantaged and nonwhite students is lowest among the districts that received no SFP funding for new construction.

On the other hand, consistent with concerns that the SFP tends to benefit larger districts, there is a clear difference in enrollment between districts that received SFP funding and those that did not. On average, districts that did not participate in the New Construction program have substantially lower enrollments than districts that received funding. However, recall that to obtain state funding for new school construction projects, districts must first demonstrate that existing seating capacity is insufficient to house existing students or anticipated students using a five-year projection of enrollment. As Table 13 reveals, districts that did not participate in the New Construction program have substantially lower enrollment

counts and substantially lower enrollment growth over the period 1998-2015. Among districts receiving no SFP funding, enrollment growth average -8.15%, which is substantially lower than the enrollment growth rate among districts that received funding. Furthermore, consistent with the new construction program’s objective of targeting aid to districts with the greatest capacity constraints, among districts that received new construction funding, funding increases monotonically with enrollment growth.

Turning to the distribution of school facility funding across districts, Table 13 reveals that districts that did not participate in the New Construction program tended to have lower local G.O. bond revenue, state aid (from all programs) and total revenue per-pupil. Furthermore, while local G.O. bond revenue is distributed rather equally across quintiles, total state aid and total revenue per-pupil increase monotonically across the quintiles of SFP new construction funding per-pupil.

Table 14. Characteristics of Districts Receiving SFP Modernization Funding by Quintiles of Funding, 1998-2017

| | No Aid | First Quintile Less than \$1,177 | Second Quintile \$1,178 - \$1,964 | Third Quintile \$1,965 - \$2,921 | Fourth Quintile \$2,922-\$4,020 | Fifth Quintile Greater than \$4,020 |
|---------------------------------------|-------------|-------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|--|
| <i>Characteristics</i> | | | | | | |
| Assessed Value per Pupil | \$1,683,610 | \$912,388 | \$1,010,704 | \$1,307,682 | \$1,956,601 | \$2,354,960 |
| Median Income | \$56,842 | \$58,766 | \$58,883 | \$61,642 | \$67,308 | \$67,636 |
| Percent Nonwhite | 54.64% | 65.51% | 69.12% | 62.79% | 58.95% | 55.45% |
| Percent Poor | 61.29% | 62.02% | 64.21% | 58.95% | 54.18% | 50.36% |
| Enrollment | 1,249 | 7,279 | 7,911 | 7,095 | 6,713 | 5,801 |
| Enrollment Growth | 0.16% | 21.73% | 15.87% | 6.61% | 0.71% | -4.88% |
| <i>Facility Funding</i> | | | | | | |
| Local Bond Revenue Per-Pupil | \$4,913 | \$8,059 | \$9,392 | \$10,731 | \$13,660 | \$16,315 |
| State Aid Per-Pupil | \$4,929 | \$6,941 | \$8,124 | \$6,760 | \$6,817 | \$8,925 |
| Total Revenue Per-Pupil | \$13,794 | \$20,734 | \$22,926 | \$22,160 | \$24,182 | \$28,774 |
| Modernization Apportionment Per-Pupil | | \$661 | \$1,572 | \$2,422 | \$3,463 | \$5,361 |
| Observations | 125 | 146 | 123 | 143 | 150 | 174 |

Notes: Data on SFP funding from 1998-2017 by program comes from the California Office of Public School Construction. Per-pupil facility funding revenue figures represent total funding between 1998-2015 divided by average enrollment over the same time period. All figures are reported in constant 2016 dollars. Enrollment growth is measured as the percentage change in district enrollment between 1998 and 2015. Quintiles are unweighted such that 20% of all districts that received any modernization funding over the time period are contained in each quintile. Quintiles are based on per-pupil new modernization funding between 1998 and 2017.

Table 14 provides the same information as Table 13 based on the allocation of SFP modernization funding. As the table reveals, the distribution of modernization funding looks quite different than the distribution of new construction funding. On average, assessed value per-pupil among districts that did not participate in the SFP Modernization program is similar to the overall average among districts that received funding. However, among districts that received modernization funding, assessed value per-pupil increases monotonically across funding quintiles. Districts that received the most modernization funding per-pupil (fifth quintile) have substantially higher assessed values than districts that received no funding or districts that received funding but were in one of the first three quintiles of funding. Furthermore, median household income is lowest among districts that received no SFP modernization funding and highest among the districts that received the most funding (quintiles 4 and 5).

Table 14 also reveals that districts that received no SFP modernization funding tended to have substantially lower enrollment than district that received funding. Among districts that

received no funding, enrollment is on average about 5 times smaller than the average enrollment in any of the quintiles of districts that received funding. Finally, in contrast to the results reported in Table 13, SFP Modernization program funding generally tends to be inversely related to enrollment growth. Among districts that received modernization funding, there is a clear negative relationship between the amount of funding received and enrollment growth. These patterns suggest districts that may not qualify for new construction funding (given program eligibility requirements) may more forcefully go after SFP modernization funding and that larger and more wealthy districts are better positioned to go after this funding.

Overall, the results reported in Table 14 are consistent with the concern that higher wealth districts and larger districts disproportionately benefit from the first-come, first-serve nature of the SFP program (at least for the Modernization program). That conclusion is reinforced by the distribution of facility funding across districts. As Table 14 reveals, districts that received no funding from the SFP Modernization program over the period 1998-2017 tended to have lower local G.O. bond revenue, total state aid, and total revenue per-pupil than districts that received funding. Furthermore, among districts that received modernization funding, total funding per-pupil and funding from local and state revenue sources increase monotonically with the quintiles of SFP modernization funding.

Tables 13 and 14 focused on the SFP's New Construction and Modernization programs. As shown in Table 2, combined, these programs make up 78% of all state aid for school facilities. Here we turn to two smaller, but important programs that were financed with funds from California's 2002, 2004 and 2006 statewide bond issues: the Critically Overcrowded Schools (COS) and the Overcrowding Relief Grant (ORG) programs. Combined, these two programs provided \$2.41 billion in funding for overcrowded schools. To qualify for the COS program, a school must have a student population density that is 200% or more of the CDE's recommended density. For elementary schools, that translates into a density of more than 115 students per acre, while for middle and high schools, it translates into a density of more than 90 students per acre. To qualify for the ORG program, a school must have a student population density that is 175% or more of CDE's recommended population density.⁴⁸

Table 15 shows how the characteristics and level of school facility funding differs among districts that received COS or ORG program funding and those that did not. As Table 15 reveals, districts that received COS or ORG funding tended to be substantially less wealthy (measured both in terms of assessed values and median income) than other school districts and contain higher concentrations of nonwhite and disadvantaged students. The bottom rows of Table 15 compare the level of school facility funding among districts that received COS or ORG funding to the level of funding in other districts. Once again, school facility funding is expressed in per-pupil terms and measured in constant 2016 dollars. Districts that received COS or ORG funding

⁴⁸ Unlike the COS program, the ORG program was specifically designed to reduce the number of portable classrooms on overcrowded school sites and replace them with permanent classrooms.

tend to have significantly higher local G.O. bond revenue, total state aid, and total revenue per-pupil compared to all other districts.

Table 15. Facility Revenue Per-Pupil and Characteristics of Districts Receiving SFP Funding from Critically Overcrowded Schools and Overcrowding Relief Grant Programs, 1998-2017

| | Districts Receiving State Aid for Overcrowding | All Other Districts | Los Angeles Unified |
|--------------------------------------|---|---------------------|------------------------|
| <i>Characteristics</i> | | | |
| Assessed Value per Pupil | \$1,185,187 | \$1,812,064 | \$947,808 |
| Median Income | \$58,777 | \$61,571 | \$49,173 |
| Percent Nonwhite | 85.89% | 58.22% | 89.00% |
| Percent Poor | 71.94% | 57.56% | 80.82% |
| Enrollment | 40,917 | 4,486 | 663,556 |
| Enrollment Growth | 7.69% | 4.04% | -4.96% |
| <i>Facility Funding</i> | | | |
| Local Bond Revenue Per-Pupil | \$20,837 | \$9,688 | \$25,327 |
| State Aid Per-Pupil | \$9,457 | \$6,845 | \$8,877 |
| Total Revenue Per-Pupil | \$35,077 | \$20,887 | \$37,058 |
| Overcrowding Apportionment Per-Pupil | \$1,282 | \$0 | \$3,456 |
| Observations | 47 | 867 | 1 |

Notes: Data on SFP funding from 1998-2017 by program comes from the California Office of Public School Construction. Per-pupil facility funding revenue figures represent total funding from 1998-2015 divided by average enrollment over the same time period. All figures are reported in constant 2016 dollars. Enrollment growth is measured as the percentage change in district enrollment between 1998 and 2015. Overcrowding apportionment per-pupil represents sum of COS and ORG funding from 1998-2017 divided by average enrollment between 1998 and 2015. Columns 1 and 2 include Los Angeles Unified.

While 47 districts received COS or ORG funding, one district stands out in terms of the number of overcrowded schools, namely Los Angeles Unified. For example, Los Angeles Unified contains nearly 50% of all schools on the CDE’s critically overcrowded school list. Therefore, the final column of Table 15 presents the characteristics and level of school facility funding for Los Angeles Unified. As the final column reveals, although assessed value per-pupil and median household income are relatively low in Los Angeles Unified, facility funding in Los Angeles Unified is relatively high in comparison to all other districts on average. Thus, overall, the results reported in Table 15 suggest that the COS and ORG programs were generally successful at targeting funding towards districts with critical facility needs.

Charter School Facility Funding

The previous sections provided an overview of California’s system of school facility finance and a detailed analysis of the size and distribution of school facility funding. In those

sections we focused on the financing of new school construction and modernization projects for traditional K-12 schools. This section provides an overview of charter school facility funding.

Since the first charter schools were established in California in 1993 the number of charter schools has grown dramatically. As of 2017, over 630,000 students were enrolled in one of California's 1,275 public charter schools. As noted by Brunner (2006) among others, charter schools face unique facility challenges for several reasons. First, unlike public school districts, charter schools do not have the authority to issue general obligation bonds to finance their school facility needs. Second, a majority of charter schools in California are independent start-ups that do not have direct access to public school facilities. For example, according to the California Department of Education, as of 2016-17, approximately 85% of charter schools were independent start-ups and the remaining 15% were conversion schools (traditional public schools that converted into charter public schools). Third, financial institutions tend to view charter schools as risky investments, which leads to high borrowing costs for facility investments. Fourth, some independent charter schools have difficulty locating new property sites that are in compliance with local zoning regulations. Unlike state agencies and district-run schools which are exempt by state law, charter schools must adhere to local zoning regulations. While school districts have the authority to grant charter school property an exemption, they are often hesitant to do so.⁴⁹ Fifth, some charter schools contend with local opposition to their sitting in new areas. Thus, the question of charter school facilities is not just a physical logistics matter; it is also a question of great political import as the role and scope of charter schools in California K-12 public education is heavily contested.

Brief History of Charter School Facility Funding

Charter schools were first authorized in California following the passage of the Charter Schools Act of 1992. At that time, the framers of the charter school legislation envisioned that charter schools would be "conversions" and use district facilities.⁵⁰ As a result, the original charter school legislation did not provide additional funding for charter school facilities. However, as early as 1995, nearly 50% of charter schools were start-ups with no access to existing school facilities.⁵¹ Furthermore, many school districts were experiencing facility shortages in the 1990s, making it difficult for them to find adequate housing for conversion charter schools. The facility shortage was exacerbated when the state legislature increased the maximum total cap on charter schools from 100 to 250 for the 1998-99 school year. Every year thereafter, the state could approve an additional 100 schools. By the 2005-06 school year, there were 560 operational charter schools in California and according to a 2002 survey conducted by the Rand Corporation, 62% of all charter schools surveyed stated they were struggling to finance their school facility needs. Since 2006 the number of charter schools

⁴⁹ However, at the same time, independent charter schools have more flexibility in their locational search compared to traditional public schools since they do not have to follow state environmental siting guidelines to which district-run schools are bound (e.g. distance from heavy traffic, proximity to oil pipe lines).

⁵⁰ <https://edsources.org/wp-content/publications/CharterSchools04.pdf>

⁵¹ See Krop and Zimmer (2005) for a historical account of the number of start-up and conversion charter schools in California.

operating in California has continued to grow. As previously noted, there are now over 1,275 charter schools operating in California and as the number of charter schools has grown, so have the facility issues facing charter schools.

In response to the significant facility challenges facing charter schools, the state legislature created the Charter School Revolving Loan Fund (CSRLF) in 1996. The program provides low-interest loans of up to \$250,000 for non-conversion charter schools.⁵² Charter schools that are incorporated may borrow directly from the CSRLF, all other charter schools must request a loan through their charter-granting authority. Charter schools can use the proceeds of a loan to help meet any of the objectives outlined in their charter, including the leasing of facilities and the costs of facility improvements. All loans must be repaid within five years. As of January 2018, the state has awarded \$37.8 million in loans to 153 charter schools.⁵³ While the CSRLF was a positive step in addressing charter school facility issues in California, it fell short of meeting the facility needs of the growing number of charter schools.

Ramifications of Proposition 39 for Charter Schools

The facility picture for charter schools changed considerably following the passage of Proposition 39 in November of 2000. In addition to reducing the vote requirement on local G.O. bonds from two-thirds to 55%, the proposition also required that, “each school district make available, to each charter school operating in the school district, facilities sufficient for the charter school to accommodate all of the charter school's in-district students in conditions reasonably equivalent to those in which the students would be accommodated if they were attending other public schools of the district. Facilities provided shall be contiguous, furnished, and equipped, and shall remain the property of the school district.”⁵⁴ Prior to the passage of Proposition 39, school districts were only required to allow charter schools to use a district facility if that facility was not currently being used by the district for instructional or administration purposes or if the facility had not been historically used for rental purposes. With the passage of Proposition 39, it became the legal responsibility of school districts to make all reasonable efforts to house charter school students in facilities that were essentially equivalent to those used to house in-district students. Thus, Proposition 39 substantially increased the responsibility of school districts to provide adequate facilities for charter schools.⁵⁵

⁵² The discussion in the text describes the CSRLF program as amended in 2000. Under the original legislation the maximum grant available was \$50,000. Furthermore, the proceeds of the loan had to be used within the first year of operation and repaid within two years.

⁵³ California School Finance Authority, <http://www.treasurer.ca.gov/csfa/csrlf/webinars/2018/20180124/csrlf-application.pdf>.

⁵⁴ California Education Code, § 47614.

⁵⁵ Several points are worth noting with regard to this school district responsibility. First, the Proposition 39 charter facilities obligation falls upon the school district in which the charter school is located, regardless of who approved the charter. Thus, the charter could have been approved by the county board of education, the State Board of Education, or even by another school district, but the facility responsibility still falls upon the school district in

Proposition 39 facility requests remain at times difficult and contentious in school districts across the state. This tension stems, in part, from the fact that districts are not required to extend building leases to charters for more than one year at a time and some charter schools face community pushback when they are co-located in the same facilities as district-run schools (Kohli, 2016). Nevertheless, a 2015 survey of charter schools conducted for the National Charter School Resource Center revealed that 78% of charter schools that received district space through Proposition 39 were satisfied with their facility. However, 74% of charters that had received space through Proposition 39 felt that the process was very time consuming.

Some charter schools have pursued dispute resolution and/or filed lawsuits against school districts to address their facility needs. For example, in *Ridgecrest Charter School v. Sierra Sands Unified District*, the Court of Appeal, Fifth District ruled that, “to the maximum extent practicable, the needs of the charter school must be given the same consideration as those of the district-run schools, subject to the requirement that the facilities provided to the charter school must be contiguous.” Since that time, Proposition 39 lawsuits have been filed against other districts. Most notably, in 2015 the California Supreme Court issued a ruling in favor of charters schools in the case of *California Charter Schools Association v. Los Angeles Unified School District*. Despite the ongoing tension between charter schools and local school districts over Proposition 39 facility requests, there is little question that Proposition 39 has fundamentally altered the facility predicament faced by charter schools.

Current Facility Funding for Charter Schools

In addition to passing Proposition 39, since 2000 California has also implemented several programs designed to increase funding for charter school facilities. These include: 1) the Charter School Facility Grant Program (commonly known as SB 740); 2) the Charter School Facilities Program (CSFP); 3) local school district bonds that apportion funding for charters; and 4) the Conduit Bond program. There also are several federal programs that provide facility support, namely the New Market Tax Credits Program (NMTC) and the Charter School Facilities Incentive Grants Program (CSFIGP). This section addresses each of these California programs in turn, while a description of federal funding for charter school facilities can be found in Appendix D.

which the charter geographically locates. Second, while the provisions of Proposition 39 require school districts to provide facilities for charter schools, districts are not required to use unrestricted general fund revenues to make those facilities available. In particular, *California Education Code* § 47614 states that, “no school district shall be required to use unrestricted general fund revenues to rent, buy, or lease facilities for charter school students.” However, if a district does choose to use unrestricted general fund revenue, the district may charge the charter school a “pro rata share” of the facility costs. The pro rata share is based on the ratio of space allocated by the school district to the charter school divided by the total space of the district. If the district uses any other source of revenue (e.g. local bonds or state aid) to finance the cost of charter school facilities, the charter school could not be charged for those costs.

In 2001, the state legislature passed SB 740, which created the Charter School Facility Grant Program to provide charter schools with assistance for facilities rent and leasing costs. To be eligible for a grant, 55% of the students enrolled in a charter must be eligible for free or reduced-price meals or the charter school must be located in district where at least 55% of all students are eligible for free or reduced-price meals.⁵⁶ Conversion charter schools and those that have received reasonably equivalent facilities through a Proposition 39 request are not eligible for a grant. The program allows charter schools to receive a reimbursement of up to \$1,117 per-pupil for rental and leasing expenditures, but no more than 75% of the charter school's total annual rental and leasing cost.⁵⁷ As of October 2017, the state legislature has appropriated over \$371 million for the program and served 485 schools since the program's inception in 2001.⁵⁸

Assembly Bill 14, enacted in 2002, established the Charter School Facilities Program (CSFP) as a pilot program to assist charter schools in obtaining adequate school facilities. Prior to the establishment of the CSFP, charter schools wishing to access state bond revenue for facilities projects had to petition their school districts to include them on applications for state funding. According to *EdSource* and the Office of Public School Construction, only five new construction projects and four modernization projects received funding prior to the establishment of the CSFP. The CSFP was originally funded with \$100 million of Proposition 47 bond revenue. With the passage of Proposition 55 in 2004 and Proposition 1D in 2006, the program received an additional \$800 million in funding (Prop 55 \$300 million, Prop. 1D \$500 million). Currently the program is funded with an additional \$500 million stemming from the passage of Proposition 51 in 2016.

The CSFP allows districts to obtain funding for new construction or modernization projects directly, or through the school district where the charter school is located.⁵⁹ To be eligible for funding, a charter school must demonstrate that the district in which it is physically located is eligible for new school construction or modernization; this amounts to providing evidence that existing seating capacity is insufficient to house existing students or anticipated

⁵⁶ The original eligibility level for the legislation was 75% of students being eligible for FRPM and the per-pupil reimbursement was \$750. Charter schools successfully advocated for passage of AB 104 in 2015 which lowered it to 55% and increased the per-pupil amount to \$1,117 as well as cost indexed it with inflation. This new guideline level has broadened access to SB 740 grants. In the 2012-2013 school year, approximately 56% of CA students were eligible for FRPM.

⁵⁷ Although the SB 740 program stipulates funding can only be used for rent or leasing costs, thus excluding mortgage payments, some charter schools have created a limited liability corporation (LLC) which is owned by the charter's parent company. The LLC serves as the legal owner of the building and the charter school then technically leases the space from the LLC. Thus, although designed to help with facility rent and leasing costs, SB 740 funding has been used to purchase private property owned by charter corporations (Lafer, 2017).

⁵⁸ California School Finance Authority: Fast Facts as of October 1, 2017

⁵⁹ State Allocation Board and the California School Finance Authority, "Charter School Facility Funding: Joint Report to the Legislature," July 2005.

students using a five-year projection of enrollment.⁶⁰ Similar to other programs in the SFP, state aid is provided on a 50/50 state and local matching basis. Thus, charter schools wishing to access Proposition 51 funds must provide 50% of an approved project's eligible costs. Charter schools have the option of meeting the 50% match either as a lump sum or by entering into a lease agreement with the state for a period of up to 30 years. To qualify for funding, a charter school must demonstrate that it is financially sound and capable of meeting the required 50% local matching contribution.⁶¹

In the original round of funding, which consisted of \$100 million in Proposition 47 bond revenue, the Office of Public School Construction received 17 applications that were eligible for funding. Given the limited funding available, only six of those projects were able to be funded. As a result of this shortfall in funding, the state legislature enacted SB 15 in 2003. The new legislation revised the CSFP regulations to include caps on charter school project funding. Specifically, the new legislation limited the number of per-pupil grants that could be requested, the maximum acreage allowed for site acquisition, and total project costs. In 2017, there were 187 applications for the CSFP funding. When the number of eligible project applications exceeds the total amount of funding available in the CSFP, preliminary apportionments are rationed so that they are representative of: 1) various geographical areas in the state; 2) various grade levels served by charter schools; 3) urban, rural and suburban areas of the state; and 4) large, medium and small charter schools. Within each of those areas, preference is given to charter schools located in districts with large shares of students eligible for free or reduced-price lunch, those located in districts with overcrowded schools, and nonprofit charters.

While charter schools are unable to access local school bond financing on their own, there have been several local school districts that have chosen to dedicate a portion of their local school bonds to charter schools. San Diego Unified, Los Angeles Unified, Natomas Unified, Chico Unified, East Side Union and others have agreed to dedicate significant portions of their local bond measures to charter school projects. As the implementation of these bonds is a locally driven process, charter schools negotiate with their respective local school districts about whether they will be eligible for bond funding.

Legislation passed in 2006 (Assembly Bill 2717), made it possible for non-profit charter schools to work directly with the California School Finance Authority (CSFA) and have the CSFA be their conduit issuer in providing financing for working capital and capital improvements. As

⁶⁰ If the district where the charter school is, or will be, located has not established new construction eligibility, the charter school must submit the appropriate documentation establishing eligibility at the time it submits its application for a principle apportionment to the OPSC. Additionally, California law also stipulates that if a charter school received facility funding, it would not reduce the local school district's New Construction Program funding eligibility.

⁶¹ The CSFP allows charter schools to receive preliminary apportionments for new school construction projects. A preliminary apportionment is essentially a reservation of funds which provides a charter school with more time to find an appropriate location for a new school construction project and to obtain the necessary approvals from the California Department of Education and the Division of the State Architecture. Charter schools have up to four years to convert their preliminary apportionments into a final apportionment.

a conduit issuer, CSFA issues bonds on behalf of charter school borrowers and provides access to the capital markets and federal bond programs. Most private activity bonds (PABs)⁶² and Qualified Zone Academy Bonds (QZAB)⁶³ that go to charter facility needs in California are filtered through CSFA. Since its inception, the CSFA's Conduit Bond program has issued over \$720 million in bonds to provide low-cost, fixed rate financing to charter schools.

Combined, the CSFG, CSFP, and the CSFA Conduit Bond program, along with the two federal programs, have made available over \$2.9 billion in funding for charter school facilities between 2002 and 2017. Given there were 602,837 students enrolled in charter schools in California in 2017, this represents approximately \$4,900 per-pupil. To place that figure into context, between 2002 and 2017 the state provided approximately \$34.3 billion in funding for non-charter related school facility projects through the SFP. With 5,625,398 non-charter students enrolled in California K-12 schools in 2017, this represents approximately \$6,100 per-pupil. Of course, these comparisons are based solely on state aid (and in the case of charters, some federal aid) for school facilities and ignore the large amount of revenue raised through local G.O. bonds. Furthermore, the comparison ignores the fact that some charter schools have received bond revenue from their local school district and others have received district space through Proposition 39. Nevertheless, they point to a relatively robust stream of funding for charter school facilities in California.

State Comparisons of Charter School Facility Programs

Currently, there is no uniform or comprehensive database on charter school facility funding across the country. Given this, it is extremely difficult to compare per-pupil facility revenues for charter schools between states. However, there are qualitative evaluations of state charter school policies. Most recently, the National Alliance for Public Charter Schools (NAPCS) issued a ranking report in January 2018 for each state. California is among the top states that provide "equitable access to capital funding and facilities" for charter schools. NAPCS defines "equitable access to capital funding and facilities," as including "multiple provisions such as facilities funding, access to public space, access to financing tools, and other supports." Along this dimension, California ranks in the top eight states along with Colorado, the District of Columbia, Florida, Indiana, Tennessee, Texas, and Utah. Furthermore, there are widely considered to be four broad categories of state-funded charter school facility financing options: 1) state dedicated facilities funding; 2) state grant programs; 3) tax-exempt bond programs; and 4) state credit enhancement programs. California has all but a state credit enhancement program; however, the state does administer a credit enhancement program that is federally funded.

⁶² Government entities use PABs to help private organizations pay for facilities and capital finance improvements, and are tax exempt for qualified 501c3 organizations, such as hospitals and charter schools.

⁶³ Implemented by Congress in 1997, QZABs allow for qualified low-income schools to borrow at nominal interest rates for costs incurred in connection with the establishment of special programs in partnership with the private sector. However, 2017 tax reform ended the issuance of QZABs. See California Department of Education QZAB page.

Discussion of Policy Implications

Over its 20 years, California's School Facility Program (SFP) ushered in a new era of state-local cost-sharing for public school construction and modernization. While the passage of Proposition 51 in 2016 brought new funds to the nearly depleted program, a recent shift in the politics of the state's role in school facility finance raises questions about the future direction of the SFP. A 2014 bill in the state legislature for a new statewide school construction bond (which would have been the first since 2006) failed to gain enough support in the legislature.⁶⁴ As the SFP ran out of the bonding authority from previous statewide propositions, Governor Brown highlighted his concerns about maintaining the state's funding role, and proposed no new funding in his state budgets between 2014 and 2017. Seeing little support among state leaders in Sacramento for new SFP funding, California's Coalition for Adequate School Housing (CASH) and the California Building Industry Association (CBIA) launched a signature gathering initiative to put a statewide school construction bond on the November 2016 ballot. Their success put Proposition 51 on the ballot, which passed with 55% of the vote. Both the California Democratic Party and the California Republican Party endorsed Proposition 51. However, Governor Brown opposed the measure, marking the first time a sitting governor had opposed a statewide school construction bond. It also marked the first time a statewide school construction bond did not go through the legislature, but instead was a ballot initiative. Thus, the historically broad and bipartisan support among elected leaders in Sacramento for state level school facility funding appears to have become more fragile.

The Governor's opposition to Proposition 51 centered around concerns over the state's ongoing debt service payments for school construction (pegged at nearly \$1.7 billion per year through 2044) and his belief that SFP funds are not directed to districts with the highest need.⁶⁵ The Governor has further suggested that the responsibility of financing school facility investments in the future should fall more heavily on local school districts and less on the state. Consistent with those notions, the Governor's 2014-15 Budget Summary noted:

As part of the 2014 Five-Year Infrastructure Plan, the Administration proposes to continue a dialogue on the future of school facilities funding, including consideration of what role, *if any*, the state should play in the future of school facilities funding. This

⁶⁴ Assembly Bill 2235 Education facilities: Kindergarten-University Public Education Facilities Bond Act of 2014 (Buchanan and Hagman). <http://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml>. See also: "\$9 billion school construction bond moves toward November ballot" May 28, 2014, *EdSource*. http://edsources.org/2014/9-billion-school-construction-bond-moves-toward-november-ballot/62621#.VKx_V4rF87M

⁶⁵ As of 2015, the State of California owes more than \$50 billion in principle and interest on school bonds dating back to 1998. According to the State Treasurer, the state will pay an average of \$1.7 billion in general fund revenue annually until outstanding debt is paid off (expected 2044). For California debt information, see: 2015-16 Governor's Budget Summary, Schedule 11 (<http://www.ebudget.ca.gov/fullbudgetsummary.pdf>); State of California 2014, Debt Affordability Report (<http://www.treasurer.ca.gov/publications/2014dar.pdf>).

infrastructure discussion should also include the growing debt service costs associated with the state’s increased reliance on debt financing (p. 25, emphasis added).⁶⁶

Others have raised similar concerns about California’s current system of school facility finance. For example, when opposing Proposition 51, the *LA Times* editorial board described the SFP as “emblematic of a state system for funding new and renovated schools that is badly outdated, inequitable and inefficient.”⁶⁷

Despite these concerns, it is unlikely the State of California would retreat altogether from its decades-long role in providing school construction and modernization aid to local school districts. Court decisions, various sections of the *Government Code* and the *Education Code*, and the *Leroy F. Green School Facilities Act of 1998*, suggest the state has an ongoing legal responsibility for the conditions and qualities of public school facilities (Vincent 2012). But clearly, at the time of this writing, there is no consensus in Sacramento about what that should look like.

Going forward, California’s leaders must decide whether and how they will maintain the state’s long-standing commitment to funding K-12 school facilities and ensure safe, adequate, and educationally appropriate learning environments for the state’s more than six million students. Given the recent political shift and growing concern over the state’s role in funding school construction and modernization, this final section provides a review of some of the major findings in this report and links those findings to research reports that have recommended various changes to the current system of school facility finance in California. Ten years ago, Brunner (2006) documented the reforms to California’s system of school facility finance that were recommended in numerous research reports. As discussed below, many of those recommendations are still relevant today.

Despite Past Investments, K-12 Facility Needs Remain High

California has one of the nation’s largest inventories of public K-12 schools in the country, with approximately 10,000 schools, more than 500 million square feet of space, more than 300,000 classrooms, and an estimated 125,000 acres of land statewide (Los Angeles USD alone has more than 900 schools). About 30% of schools in California are at least 50 years old and about 10% are at least 70 years old (Vincent, 2012). K-12 public school facilities—like all buildings—need regular annual spending to ensure occupant health and safety and to preserve

⁶⁶ Governor’s Budget Summary 2014-15: “As part of the 2014 Five Year Infrastructure Plan, the Administration proposes to continue a dialogue on the future of school facilities funding, including consideration of what role, if any, the state should play in the future of school facilities funding. This infrastructure discussion should also include the growing debt service costs associated with the state’s increased reliance on debt financing (pg 25, emphasis added).” <http://www.ebudget.ca.gov/2014-15/pdf/BudgetSummary/Kthru12Education.pdf>.

⁶⁷ *Los Angeles Times* Editorial Board. (September 22, 2016). No more school bonds until California fixes its system for funding school construction: No on Prop 51. *Los Angeles Times*. <http://www.latimes.com/opinion/editorials/la-ed-proposition-51-20160921-snap-story.html>; *Sacramento Bee* Editorial Board. (September 22, 2016). Yes, we need schools, but not the Prop. 51 \$9 billion school bond. *Sacramento Bee*.

the buildings' function (Vincent and Jain 2015). For schools, this means spending on facilities such that they provide students with safe and healthy learning environments that support the education program.⁶⁸

Recent studies suggest that K-12 schools in California still require significant ongoing school facilities investments. Vincent and Jain (2015) estimate that school districts need to spend an estimated \$3.1-\$4.1 billion annually to maintain current school facilities. Similarly, Vincent (2012) estimates that over the next decade California schools are projected to need approximately \$117 billion in additional facility funding. Finally, the LAO (2011) notes that despite the significant K-12 facility investments California has made over the last several decades, it appears likely the facility needs will remain high moving forward.

The potential need for significant K-12 facility investments over the next decade, comes at a time when political support for additional statewide bond issues appears to be waning, with the Governor and some lawmakers raising concerns about the state's ongoing debt service payments for school construction. Indeed, in its 2011 report on California infrastructure spending, the LAO notes:

Given that K-12 infrastructure spending accounted for almost 50 percent of the state's general obligation bond spending from 2000-01 through 2009-10, any effort to control the escalation of state debt-service costs likely will have to include some reduction in the pace of K-12 infrastructure spending.

With that in mind, we now turn to discussing the policy implications of our results for California's system of school facility finance.

Instability in State Funding Presents Local Challenges

As we document in this report, school facility spending in California has fluctuated dramatically over time. Part of this fluctuation is due directly to the way the state finances its share of school facility funding, namely through statewide G.O. bonds. Specifically, the irregular nature of statewide school facility bond issues has led to "hills and valleys" in revenue availability. The unpredictability of state funding hinders the ability of school districts to

⁶⁸ There is strong evidence in the academic literature the quality of school facilities affects student achievement through myriad factors and the quality of school facilities is a factor in student and teacher attendance, teacher retention and recruitment, child and teacher health, and the quality of curriculum (U.S. Department of Education 2014). Researchers at the Harvard School of Public Health recently wrote, the evidence is unambiguous – school buildings impact student health, thinking, and performance (Allen et al. 2017). Poor or substandard school buildings and grounds negatively affect the health of children and adults in schools, which in turn negatively affects their performance (Uline and Tschannen-Moran 2008). Studies also find significant correlations between poor structural, conditional, and aesthetic attributes of school buildings and low student learning and achievement (Maxwell 2016). Most, though not all, studies examining the relationship between school facility investments and student achievement also find a relationship (See for example, Cellini, Ferreira & Rothstein 2010, Martorell, Stange, & McFarlin 2016, Neilson & Zimmerman 2014, and Conlin & Thompson 2017).

develop long term plans for their school facility investment decisions (LAO, 2001). For example, in its 2015 report on school facility funding, the LAO notes:

While the amount of state funding distributed since SFP was created has averaged about \$2 billion a year, the amount distributed in a given year has ranged from \$140 million to \$5 billion. The wide variance in state funding from year to year can make it difficult for school districts to plan facilities projects.

Similar concerns have been raised by the Joint Legislative Committee to Develop a Master Plan for Education in 2002, the LAO in 2001, as well as reports by PolicyLink and MALDEF (2005), the Little Hoover Commission (2000), and the California Performance Review Commission (2004).⁶⁹

Each of the reports mentioned above provide a slightly different recommendation on how to address the issue, but all suggest that the state develop a more predictable and consistent method of financing school facilities. The most common recommendation calls for replacing the current system with a new system that would provide school districts with annual per-pupil allocations for school facility investments. For example, in its 2015 report on school facilities, the LAO recommended the state provide annual per-pupil grants to school districts that would cover a “minimum share” of districts’ expected facility costs. We discuss this recommendation in more detail below.

Local Ability to Raise Facility Funds Varies Widely

Section V detailed the size and distribution of school facility revenue between 1998 and the present. There we showed that funding for school facility projects varies widely across districts. Some of the variation can be explained by differences across districts in need: districts with higher enrollment growth tend to have higher facility revenue per-pupil. However, Section VI also highlighted that facility funding tends to vary systematically with ability to pay: districts with higher income and districts with higher assessed value per-pupil have significantly higher facility revenues. Section VI also documented that assessed value per-pupil was negatively correlated with the share of disadvantaged and nonwhite students in a district. As a result, districts with larger shares of disadvantaged or nonwhite students tend to have significantly lower revenue for school facility investments, a pattern also found by Vincent and Jain (2015). In short, our analysis reveals large facility spending differences across districts related to income and property wealth and a state program that does little to dampen inequality except at the very bottom of the wealth distribution. As a result, California’s current system of school facility finance is relatively regressive.

In light of the strong positive relationship between property wealth and the ability to raise local revenue for school facility investments, a number of reports have suggested the state move to a system where it adjusts state funding for differences in local resources. For

⁶⁹ Joint Legislative Committee to Develop a Master Plan for Education, California Master Plan for Education, Sacramento, California, 2002. Legislative Analyst’s Office, A New Blueprint for California School Facility Finance, Sacramento, California, 2001.

example, in its 2001 report on school facility finance, the LAO suggested an “ability-to-pay” adjustment program. Under such a system, the state would target revenue to districts with the least ability to raise revenue through local general obligation bonds and developer fees and fund the difference between some set standard of revenue per-pupil and the amount of revenue a district could raise by imposing the maximum allowable tax rate and collecting developer fees at the maximum rate allowed by law.

More recently the LAO (2015) has suggested replacing statewide G.O. bond revenue with annual per-pupil grants, which would cover a minimum share of a school districts expected facility needs.⁷⁰ The state would then adjust this minimum share based on a school district’s property wealth. Under such a system, districts with low assessed value per-pupil would receive a larger share of state funding and districts with high assessed value per-pupil would receive a smaller share. Alternatively, if the state chose to continue providing aid from statewide general obligation bonds, the state could alter its matching rates. Districts with low assessed value per-pupil would have high matching rates, while districts with high assessed value per-pupil would have low matching rates. Thus, rather than providing all districts with a 50% match for new construction projects and a 60% match for modernization projects, the amount of the match would vary systematically with a school district’s ability to raise revenue as measured by property wealth.

Our research findings suggest state leaders should look at ways to remedy inequitable variation in local financing ability. Doing so would likely have several benefits. First, as we document in Table 10, because property wealth is highly correlated with household income, such a system would equalize funding not only across districts in terms of property wealth; but, also across districts in terms of household income. Furthermore, recall that districts with the lowest property wealth tend to have the highest concentrations of disadvantaged and nonwhite students, while districts with the highest property wealth tend to have the lowest concentrations of disadvantaged and nonwhite students. As a result, adjusting the state’s share of aid based on property wealth may reduce socio-economic and racial/ethnic disparities in school facility funding and address the relatively regressive nature of school facility funding in California.

Second, recall that currently the SFP allocates funding primarily on a first-come, first-served basis, which critics argue tends to favor wealthier and larger districts that are able to apply more quickly for state funding. Replacing the current system with one based on annual per-pupil grants that are adjusted for differences in property wealth (or having variable matching rates for the allocation of statewide bond funds) may address this concern. As we documented in Table 14, the current system of funding modernization projects does appear to primarily benefit larger and wealthier districts: total SFP modernization funding increases

⁷⁰ It should be noted that if the per pupil grant is funded from sources other than the proceeds of state G.O. bonds (i.e., from the General Fund) it may then be a Proposition 98 appropriation and, therefore, reduce by that amount the funding available for the operational budgets of school districts. Future research should investigate this further. See Legislative Analysts’ Office. 2017. A Historical Review of Proposition 98. <http://www.lao.ca.gov/Publications/Report/3526>.

continuously with district assessed value per-pupil and smaller school districts are significantly less likely to obtain modernization aid. A new system that adjusted state aid based on property wealth may help resolve this issue.

Finally, as the LAO noted in their 2011 report, if the state wishes to control its mounting debt-service costs it will need to find a way to reduce the pace of state support of K-12 infrastructure investments. Moving to a system where state aid varied depending on local property wealth could potentially help the state meet this goal.

Changing Enrollment Trends Mean Changing Facility Funding Priorities

Due to steady or declining enrollments in recent years, statewide school facility investment needs have shifted away from new school construction to upkeep and modernization of existing ageing facilities. The SFP was established at a time when enrollments were rising, and districts across the state needed to build new schools to keep up. California's public K-12 enrollment increased by nearly 20% between 1995 and the late 2000s. But today, enrollment growth has slowed dramatically; in 2017 the Department of Finance projected a statewide enrollment net decline by nearly 3% between 2017 and 2027.⁷¹ In light of these trends, the LAO (2006; 2015), Vincent (2012), and others, have suggested the state allocate a larger fraction of future statewide bond issues towards modernization (and when necessary, replacement) of existing school facilities and a smaller fraction towards new school construction.⁷² However, Proposition 51 gives equal amounts to new construction as it does to modernization. As lawmakers consider future funding, they should keep in mind these structural changes in statewide enrollment trends.

Knowing Statewide School Facility Needs Remains Elusive

As noted in Section VI, the need for school facility funding arises primarily for two reasons: 1) capacity constraints due to enrollment growth and 2) modernization/renovation needs due to the aging of the existing capital stock. Unfortunately, the state currently does not collect reliable and systematic information on statewide school facility conditions, qualities, and needs. If state leaders want to promote adequacy and equity in school facilities across the state, they will likely need to establish a school facility inventory and assessment system to evaluate statewide school facility needs. Only with this information can state funding be targeted towards districts and schools with the greatest facility need. As noted by the LAO (2011):

⁷¹ While DoF projects a statewide decline over the coming decade, some counties are projected to grow. The largest increase in county enrollment is expected in Kern County, which will grow by 8,600 students by 2026-27. The biggest decline in enrollment is expected in Los Angeles County which will fall by 119,000 students by the end of the projection. Overall, 30 counties will have increased public K-12 enrollment by 2026-27. See: http://www.dof.ca.gov/Forecasting/Demographics/Projections/Public_K-12_Graded_Enrollment/

⁷² Legislative Analyst's Office (February 2006). Vincent (2012).

Whether the Legislature continues with the status quo or adopts some of these alternate policies, however, the state needs better data on K–12 facilities. The lack of a reliable estimate of the need for K–12 infrastructure and the associated costs makes it difficult to determine the best options for state funding. Without such data, policymakers and stakeholders cannot determine the proper size of future general obligation bond proposals or the specific amounts for various programs such as new construction or modernization.

Reports issued by the Little Hoover Commission (2000), the Joint Legislative Committee to Develop a Master Plan for Education (2002), the Legislative Analyst’s Office (2001), PolicyLink and MALDEF (2005), Vincent (2012) and Vincent and Jain (2015) echo a similar concern.⁷³

Most of the reports listed above recommend that the state develop a statewide school facility inventory and conditions assessment system. The State of California has made only very small progress in this area by defining “good repair” in the *Education Code* §17002 (d) and introducing the Facility Inspection Tool (FIT), a standardized tool for assessing facilities, that is used to define “good repair” facilities.⁷⁴ More recently, in 2013, the SFP Review Subcommittee of the SAB, has examined the possibility of establishing a “statewide database of all public school facilities in California to aid policy makers in determining future school facility funding needs.” To date, however, such a system has not been implemented.

The LAO (2015) provide an alternative approach for evaluating school facility needs in the absence of a statewide inventory system. Specifically, the LAO (2015) outlines two approaches to estimating the amount of future funding needed for school facilities. The first approach would estimate future facility needs based on past facility spending. Under this

⁷³ For example, Vincent (2012) notes: “While the state does collect data on LEA enrollment growth and has tracked overcrowding patterns, unfortunately, there is little systematic information to understand the facility improvement needs of existing schools across the state. If the State Legislature or the Governor issued an order to bring the 100 poorest condition schools up to some level of good repair/condition, then there would be no way to generate that list of schools. Without such knowledge, making strategic investments based on need is virtually impossible.”

⁷⁴ In response to the Williams settlement in 2004, a definition of facilities in “good repair” was codified in the *Education Code* (§17002 (d)(1): “good repair” means the facility is maintained in a manner that assures that it is clean, safe, and functional. The Office of Public School Construction developed the Facility Inspection Tool (FIT), a standardized tool for assessing facilities, that is used to define “good repair” facilities. Used by local school districts to self-certify their facility conditions, the FIT is a visual inspection tool of fifteen components of school facilities, with rankings for each component and the overall condition of a school. If a school exhibits any condition that prevents it from being deemed completely “clean, safe, and functional,” then that school has a “good repair” deficiency (See: <http://www.dgs.ca.gov/opsc/Programs/deferredmaintenanceprogram/goodrepairstandards.aspx>). Under the California’s Local Control Funding Formula (LCFF) for education funding, districts must specify in their Local Control and Accountability Plan (LCAP) that they will maintain their facilities up to par with the good repair standard, as well as the actions they plan to take within the year to meet this goal for any deficient buildings. However, despite the potential usefulness of the FIT for evaluating the basic conditions of school facilities and need for deferred maintenance expenditures, its usefulness for evaluating more substantial and longer-term repair and modernization needs is less clear. As a result, it does not resolve the need for a facility inventory system that could be used to guide SFP funding moving forward. The FIT is limited in that it is a snapshot in time and does not look comprehensively at building systems and component’s lifecycle.

approach, prior facility spending over some previous time period would be used to predict future spending needs, assuming that need is relatively constant over time. The second approach would estimate future facility needs based on building replacement costs. For example, based on recent SFP data on schools built in the last decade, the LAO estimates that replacing all California school buildings would cost approximately \$200 billion. Assuming a useful building life of 25 years, total annual school facility spending would need to be around \$8 billion from all sources, or approximately \$1,300 per-pupil annually. While both methods attempt to circumvent the problem of a lack of reliable and systematic information on school facility needs statewide, as noted by the LAO (2015), they nevertheless suffer from significant shortcomings. The first approach suffers from the tenuous assumption that future facility needs will mirror prior facility spending. The second approach suffers from the fact that it is highly sensitive to underlying assumptions. For example, assuming a longer or shorter useful life for school buildings can significantly change the amount of funding necessary in the future. In short, both methods are inferior to actually measuring facility conditions and using the findings to prioritize funding to remedy the most pressing problems.

Of course, having facility assessment information is only part of the solution to prioritizing state funds. The state would also likely have to establish standards on minimum facility condition and design. Some of these standards currently exist in state code, such as Title 5 of the Code of Regulations. Current school facilities would need to be compared against established minimum standards in order for the state to accurately prioritize which schools are in the most need for upgrades.

Ensuring Efficient State Oversight

The SFP was designed initially to streamline a complicated funding process. The calls for further streamlining continue today, from the governor and others. As described in Appendix B, school districts must obtain approval from a minimum of six state agencies for their construction or modernization projects. Numerous reports have called for unifying state oversight of school facility projects and creating a single state agency (or the functional equivalent thereof) that would serve as the point of contact for school districts.⁷⁵ For example, when discussing the complexity of the SFP, the LAO (2015) notes:

This complexity creates a large administrative burden for the state as well as school districts, many of which have hired consultants to navigate the intricacies of SFP. In addition, the categorical programs created to address state priorities such as seismic repair and energy-efficient schools have consistently been underutilized, suggesting state funds could be better invested elsewhere. The complexities of the funding process, the existence of numerous categorical programs, and extensive regulations governing school construction limit school districts' flexibility in designing and building facilities that meet local needs.

⁷⁵ Little Hoover Commission (2000), California Performance Review (2004), and LAO (2016).

State leaders should continually evaluate the efficiency and effectiveness of the program and the process by which school districts obtain approvals and funding, but be mindful of the need to have appropriate public accountability in the process. The system as a whole should be transparent and reasonably simple to aid understanding by legislators and the public.

Local Effort and Accountability for School Facilities in the Era of LCFF

Given that local control remains the hallmark of the state’s school facility finance approach, state standards and funding should promote responsible local planning and investment for K-12 facilities. The state’s school facility funding system should not incentivize local communities or school districts to inadequately invest in their school facilities in the hopes that the state will then step in to remedy any facilities problems. Local communities are expected to make reasonable efforts to adequately and responsibly plan for, invest in, maintain and operate their local school facilities in proportion to their local revenue-generating capacity (Vincent and Gross 2015). To that end, the LAO (2015) recommends that the state require school districts to develop five-year school facility accountability plans. The LAO suggests that such plans include deferred maintenance plans, enrollment projections and priority lists for future facility projects. State leaders should investigate the feasibility and usefulness of such an approach, particularly given the new era of local control under the Local Control Funding Formula (LCFF), which requires school districts annually develop a Local Control and Accountability Plan that aligns how their operating budget maps to their strategic objectives for education.

Conclusion

More analysis on the issues raised in this report is needed to guide policymakers as they chart the future of California school facility finance. There is a need for further examination on what mix of incentives, supports, and accountability mechanisms will ensure that local communities and school districts appropriately raise and allocate local school facility funds alongside a responsible state funding approach. A better understanding of appropriate state and local debt levels for school facilities is also needed. The appropriate state funding role for County Offices of Education facilities also needs study.

The school facility funding debate comes on the heels of sweeping changes to California’s overall school funding framework. The Local Control Funding Formula (LCFF), has increased per-pupil general operating funding from the state, made the funding more equitably distributed, and grants significant new local flexibility to school districts in determining how their state funds are spent.⁷⁶ State leaders may wish to consider SFP reforms in light of the

⁷⁶ In 2013, California made a fundamental shift in funding public education by ushering in the Local Control Funding Formula (LCFF). [California State Board of Education’s Local Control Funding Formula Resource Site: <http://lcff.wested.org/>] Its key principles are that funding should address student needs and local control is paramount. Governor Jerry Brown, the LCFF’s chief proponent, placed a strong belief in “subsidiarity” – that educational decisions are best made as close to where they will be implemented as possible. Central to the LCFF is that the state sets educational standards and establishes more robust local accountability measures.

LCFF, mainly with an eye toward creating state policy alignment between the state’s funding on the “program side” (i.e., LCFF) and the “capital side” (i.e., facilities) of public education. The findings in this report point to important policy implications state leaders should consider to ensure California’s public school capital program does not embody a regressive approach that runs counter to broader education finance reform of the Local Control Funding Formula.

Determining the State of California’s ongoing role in funding for K-12 public school facilities should receive thoughtful policy debate by lawmakers in Sacramento. The challenge at hand is how to best leverage state and local roles to ensure safe, healthy, and educationally adequate school facilities. Our analysis sheds light on the trends and needs across the state. At a minimum, the state role in K-12 facilities should focus on ensuring minimum facility conditions for all students. Even in California’s strong local control environment, statewide accountability is necessary to ensure fairness and equity.

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Appendix A: Supporting Tables

Table 1A. Distribution of Revenue Per-Pupil by Quintiles of Enrollment Growth

| Revenue Source | First Quintile | Second Quintile | Third Quintile | Fourth Quintile | Fifth Quintile |
|------------------------------|-----------------|-----------------|----------------|-----------------|--------------------|
| Unified Districts | Less than -9.4% | -9.4% to -4.6% | -4.5% to -0.1% | 0% to 6.5% | Greater than 6.5% |
| Local G.O. Bonds | \$6,356 | \$8,720 | \$5,438 | \$6,474 | \$8,580 |
| State G.O. Bonds | \$2,148 | \$2,186 | \$3,768 | \$1,858 | \$3,000 |
| Developer Fees | \$552 | \$722 | \$709 | \$716 | \$1,089 |
| Total | \$9,714 | \$12,345 | \$11,224 | \$10,659 | \$14,569 |
| Elementary Districts | Less than -8.5% | -8.5% to -2.9% | -2.8% to 5.7% | 5.8% to 14.9% | Greater than 14.9% |
| Local G.O. Bonds | \$2,289 | \$5,037 | \$3,403 | \$3,508 | \$6,411 |
| State G.O. Bonds | \$1,656 | \$2,412 | \$3,188 | \$3,120 | \$3,868 |
| Developer Fees | \$743 | \$426 | \$650 | \$1,011 | \$734 |
| Total | \$5,186 | \$8,468 | \$8,209 | \$8,689 | \$12,202 |
| High School Districts | Less than -4.4% | -4.4% to -2.0% | -1.9% to 3.7% | 3.8% to 6.3% | Greater than 6.3% |
| Local G.O. Bonds | \$7,312 | \$14,395 | \$10,018 | \$17,377 | \$11,625 |
| State G.O. Bonds | \$2,277 | \$2,110 | \$3,450 | \$1,374 | \$4,461 |
| Developer Fees | \$827 | \$614 | \$664 | \$876 | \$1,463 |
| Total | \$10,958 | \$19,379 | \$15,406 | \$21,966 | \$17,908 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Enrollment growth is measured as percent change in district enrollment between 2005 and 2015. Quintiles are weighted by average district enrollment between 2006 and 2015. Revenues are adjusted for inflation and reported in real 2016 dollars.

Table 2A. Distribution of Revenue Per-Pupil by Quintiles of Prior Facility Investments

| Revenue Source | First Quintile | Second Quintile | Third Quintile | Fourth Quintile | Fifth Quintile |
|------------------------------|---------------------|------------------------|-------------------------|------------------------|-------------------------|
| Unified Districts | Less than \$5,032.4 | \$5,032.4 to \$6,962.4 | \$6,962.5 to \$9,666.9 | \$9,667.0 to 12,317.4 | Greater than \$12,317.4 |
| Local G.O. Bonds | \$4,991 | \$5,757 | \$4,552 | \$8,934 | \$11,483 |
| State G.O. Bonds | \$2,784 | \$3,407 | \$2,474 | \$2,668 | \$1,860 |
| Developer Fees | \$517 | \$617 | \$717 | \$726 | \$1,229 |
| Total | \$9,222 | \$10,569 | \$9,239 | \$14,195 | \$15,613 |
| Elementary Districts | Less than \$3,999.7 | \$3,999.7 to \$6,694.8 | \$6,694.9 to \$9,290.0 | \$9,290.1 to 13,336.6 | Greater than \$13,336.6 |
| Local G.O. Bonds | \$2,396 | \$4,711 | \$4,589 | \$4,956 | \$5,373 |
| State G.O. Bonds | \$3,569 | \$2,905 | \$2,960 | \$2,510 | \$1,343 |
| Developer Fees | \$641 | \$828 | \$606 | \$685 | \$988 |
| Total | \$7,232 | \$9,238 | \$9,941 | \$9,214 | \$8,263 |
| High School Districts | Less than \$5,577.8 | \$5,577.8 to \$8,346.6 | \$8,346.7 to \$11,269.5 | \$11,269.6 to 14,886.8 | Greater than \$14,886.8 |
| Local G.O. Bonds | \$7,151 | \$12,032 | \$10,935 | \$7,102 | \$18,006 |
| State G.O. Bonds | \$4,045 | \$5,767 | \$1,486 | \$1,808 | \$1,334 |
| Developer Fees | \$692 | \$662 | \$776 | \$1,078 | \$1,284 |
| Total | \$12,315 | \$19,577 | \$14,641 | \$10,731 | \$22,419 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Prior facility investment is measured as the sum of real district capital expenditures between 1986 and 2005, adjusted for depreciation and divided by 2005 district enrollment. Quintiles are weighted by average district enrollment between 2006 and 2015. Revenues are adjusted for inflation and reported in real 2016 dollars.

Table 3A. Distribution of Revenue Per-Pupil by Quintiles of Median Household Income

| Revenue Source | First Quintile | Second Quintile | Third Quintile | Fourth Quintile | Fifth Quintile |
|------------------------------|--------------------|----------------------|----------------------|----------------------|-----------------------|
| Unified Districts | Less than \$48,545 | \$48,545 to \$55,775 | \$55,776 to \$65,569 | \$65,570 to \$81,614 | Greater than \$81,614 |
| Local G.O. Bonds | \$4,275 | \$4,701 | \$8,282 | \$8,868 | \$11,197 |
| State G.O. Bonds | \$3,475 | \$2,499 | \$1,622 | \$2,095 | \$2,471 |
| Developer Fees | \$524 | \$627 | \$740 | \$940 | \$1,466 |
| Total | \$9,090 | \$9,117 | \$11,841 | \$13,673 | \$16,948 |
| Elementary Districts | Less than \$44,944 | \$44,944 to \$53,196 | \$53,197 to \$65,625 | \$65,626 to \$87,218 | Greater than \$87,218 |
| Local G.O. Bonds | \$1,195 | \$3,476 | \$3,262 | \$4,017 | \$10,249 |
| State G.O. Bonds | \$3,262 | \$2,972 | \$2,389 | \$3,075 | \$2,134 |
| Developer Fees | \$522 | \$508 | \$621 | \$1,268 | \$853 |
| Total | \$5,247 | \$7,287 | \$7,436 | \$9,991 | \$14,232 |
| High School Districts | Less than \$49,013 | \$49,013 to \$57,139 | \$57,140 to \$64,307 | \$64,308 to \$81,650 | Greater than \$81,650 |
| Local G.O. Bonds | \$6,183 | \$7,708 | \$7,787 | \$11,203 | \$26,185 |
| State G.O. Bonds | \$3,870 | \$2,898 | \$2,711 | \$1,519 | \$1,266 |
| Developer Fees | \$674 | \$1,183 | \$849 | \$1,117 | \$1,074 |
| Total | \$10,807 | \$13,653 | \$11,821 | \$15,343 | \$30,832 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. District median household income comes from the 2010-2014 ACS. Quintiles are weighted by average district enrollment between 2006 and 2015. Revenues are adjusted for inflation and reported in real 2016 dollars.

Table 4A. Distribution of Revenue Per-Pupil by Quintiles of Assessed Value Per-Pupil

| Revenue Source | First Quintile | Second Quintile | Third Quintile | Fourth Quintile | Fifth Quintile |
|------------------------------|---------------------|------------------------|------------------------|------------------------|------------------------|
| Unified Districts | Less than \$426.4 | \$426.4 to \$600.7 | \$600.8 to \$840.8 | \$840.9 to \$1,286.5 | Greater than \$1,286.5 |
| Local G.O. Bonds | \$3,883 | \$3,541 | \$4,559 | \$7,349 | \$13,603 |
| State G.O. Bonds | \$3,993 | \$2,493 | \$1,875 | \$1,678 | \$2,531 |
| Developer Fees | \$606 | \$661 | \$638 | \$606 | \$1,045 |
| Total | \$9,728 | \$7,984 | \$8,077 | \$11,115 | \$18,168 |
| Elementary Districts | Less than \$441.4 | \$441.4 to \$754.9 | \$755.0 to 1,003.8 | \$1,003.9 to \$1,626.2 | Greater than \$1,626.2 |
| Local G.O. Bonds | \$1,268 | \$2,000 | \$3,209 | \$3,837 | \$6,335 |
| State G.O. Bonds | \$3,802 | \$5,009 | \$2,871 | \$2,019 | \$1,968 |
| Developer Fees | \$423 | \$459 | \$642 | \$653 | \$1,010 |
| Total | \$5,683 | \$8,359 | \$7,847 | \$7,485 | \$10,150 |
| High School Districts | Less than \$1,186.7 | \$1,186.7 to \$1,394.1 | \$1,394.2 to \$1,986.6 | \$1,986.7 to \$2,993.8 | Greater than \$2,993.8 |
| Local G.O. Bonds | \$6,384 | \$5,159 | \$8,068 | \$8,220 | \$17,843 |
| State G.O. Bonds | \$3,111 | \$3,027 | \$3,236 | \$1,605 | \$2,622 |
| Developer Fees | \$714 | \$1,058 | \$699 | \$1,284 | \$923 |
| Total | \$11,094 | \$9,574 | \$12,931 | \$11,632 | \$23,080 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Assessed value per-pupil is for 2017 and is reported in 1,000s of dollars. Quintiles are weighted by average district enrollment over time period. Revenues are adjusted for inflation and reported in real 2016 dollars.

Table 5A. Distribution of Revenue Per-Pupil by Quintiles of Percentage of Disadvantaged Students

| Revenue Source | First Quintile | Second Quintile | Third Quintile | Fourth Quintile | Fifth Quintile |
|------------------------------|-----------------|-----------------|----------------|-----------------|--------------------|
| Unified Districts | Less than 41.0% | 41.0% to 58.2% | 58.3% to 68.9% | 69.0% to 82.3% | Greater than 82.3% |
| Local G.O. Bonds | \$9,796 | \$7,770 | \$5,861 | \$7,213 | \$4,312 |
| State G.O. Bonds | \$2,316 | \$2,671 | \$1,953 | \$3,136 | \$3,080 |
| Developer Fees | \$1,251 | \$897 | \$708 | \$585 | \$534 |
| Total | \$15,531 | \$12,323 | \$9,619 | \$11,883 | \$9,064 |
| Elementary Districts | Less than 38.5% | 38.5% to 58.1% | 58.2% to 81.0% | 81.1% to 88.7% | Greater than 88.7% |
| Local G.O. Bonds | \$6,591 | \$3,382 | \$3,585 | \$2,404 | \$2,348 |
| State G.O. Bonds | \$1,968 | \$3,617 | \$2,702 | \$1,907 | \$3,844 |
| Developer Fees | \$727 | \$1,107 | \$739 | \$379 | \$437 |
| Total | \$10,045 | \$9,323 | \$8,183 | \$4,918 | \$6,957 |
| High School Districts | Less than 30.5% | 30.5% to 57.9% | 58.0% to 63.2% | 63.3% to 71.6% | Greater than 71.6% |
| Local G.O. Bonds | \$18,938 | \$10,080 | \$10,728 | \$2,666 | \$6,822 |
| State G.O. Bonds | \$1,412 | \$1,139 | \$4,425 | \$5,912 | \$4,434 |
| Developer Fees | \$1,353 | \$885 | \$722 | \$782 | \$724 |
| Total | \$24,041 | \$12,508 | \$18,860 | \$9,631 | \$12,061 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Percentage of disadvantaged students represents unduplicated pupil count of free or reduced price lunch, English Learner, and foster students in 2015 divided by district enrollment. Quintiles are weighted by average district enrollment over time period. Revenues are adjusted for inflation and reported in real 2016 dollars.

Table 6A. Distribution of Revenue Per-Pupil by Quintiles of Percentage of Nonwhite Students

| Revenue Source | First Quintile | Second Quintile | Third Quintile | Fourth Quintile | Fifth Quintile |
|------------------------------|-----------------|-----------------|----------------|-----------------|--------------------|
| Unified Districts | Less than 56.0% | 56.0% to 74.0% | 74.1% to 82.0% | 82.1% to 91.0% | Greater than 91.0% |
| Local G.O. Bonds | \$7,073 | \$6,762 | \$7,517 | \$9,023 | \$5,012 |
| State G.O. Bonds | \$2,460 | \$3,193 | \$2,163 | \$2,686 | \$2,535 |
| Developer Fees | \$705 | \$1,211 | \$878 | \$695 | \$519 |
| Total | \$11,194 | \$13,488 | \$11,509 | \$13,608 | \$8,987 |
| Elementary Districts | Less than 48.0% | 48.0% to 74.0% | 74.1% to 88.0% | 88.1% to 94.0% | Greater than 94.0% |
| Local G.O. Bonds | \$4,156 | \$4,069 | \$4,117 | \$3,635 | \$3,336 |
| State G.O. Bonds | \$2,535 | \$3,056 | \$3,974 | \$2,796 | \$2,564 |
| Developer Fees | \$778 | \$649 | \$1,185 | \$544 | \$399 |
| Total | \$8,060 | \$8,812 | \$11,366 | \$7,764 | \$6,610 |
| High School Districts | Less than 57.0% | 57.0% to 76.0% | 76.1% to 84.0% | 84.1% to 90.0% | Greater than 90.0% |
| Local G.O. Bonds | \$9,725 | \$13,509 | \$13,016 | \$5,486 | \$10,408 |
| State G.O. Bonds | \$2,199 | \$4,400 | \$4,309 | \$929 | \$2,112 |
| Developer Fees | \$982 | \$1,056 | \$1,133 | \$610 | \$503 |
| Total | \$13,566 | \$21,403 | \$18,845 | \$7,597 | \$13,827 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Percentage of nonwhite students constructed as 1 minus the share of non-Hispanic white students in 2015. Quintiles are weighted by average district enrollment over time period. Revenue figures are adjusted for inflation and reported in real 2016 dollars.

Table 7A. Distribution of Revenue Per-Pupil by District Enrollment

| Revenue Source | First Quintile | Second Quintile | Third Quintile | Fourth Quintile | Fifth Quintile |
|------------------------------|-----------------|-----------------|----------------|-----------------|---------------------|
| Unified Districts | Less than 1,488 | 1,488 to 3,435 | 3,436 to 8,582 | 8,583 to 19,000 | Greater than 19,000 |
| Local G.O. Bonds | \$7,227 | \$5,611 | \$6,152 | \$8,958 | \$7,318 |
| State G.O. Bonds | \$4,226 | \$2,201 | \$2,275 | \$1,974 | \$2,468 |
| Developer Fees | \$598 | \$1,034 | \$939 | \$797 | \$640 |
| Total | \$12,765 | \$10,046 | \$11,071 | \$13,205 | \$11,730 |
| Elementary Districts | Less than 135 | 135 to 391 | 392 to 1,048 | 1,049 to 3,394 | Greater than 3,394 |
| Local G.O. Bonds | \$988 | \$2,452 | \$4,633 | \$6,790 | \$5,139 |
| State G.O. Bonds | \$2,933 | \$4,191 | \$3,419 | \$1,918 | \$1,608 |
| Developer Fees | \$638 | \$827 | \$813 | \$668 | \$697 |
| Total | \$4,749 | \$7,970 | \$9,749 | \$10,726 | \$8,629 |
| High School Districts | Less than 1,054 | 1,054 to 2,355 | 2,356 to 5,985 | 5,986 to 12,418 | Greater than 12,418 |
| Local G.O. Bonds | \$6,475 | \$7,689 | \$10,530 | \$20,187 | \$8,174 |
| State G.O. Bonds | \$4,240 | \$1,677 | \$1,627 | \$2,880 | \$3,338 |
| Developer Fees | \$823 | \$763 | \$868 | \$1,377 | \$771 |
| Total | \$11,609 | \$10,792 | \$13,676 | \$26,819 | \$13,663 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Revenue figures are reported separately for districts located in unified, elementary and high school districts, respectively. Revenue figures are adjusted for inflation and reported in real 2016 dollars.

Table 8A. Distribution of Revenue Per-Pupil by Urbanicity

| Revenue Source | City | Suburb | Town | Rural |
|------------------------------|-----------------------|------------------------|-----------------------|-----------------------|
| Unified Districts | Less than \$47,086.70 | Less than \$115,008.80 | Less than \$94,327.30 | Less than \$63,403.50 |
| Local G.O. Bonds | \$10,265 | \$7,545 | \$5,018 | \$5,029 |
| State G.O. Bonds | \$2,272 | \$2,136 | \$2,741 | \$3,609 |
| Developer Fees | \$825 | \$793 | \$1,058 | \$530 |
| Total | \$15,005 | \$11,858 | \$10,246 | \$9,811 |
| Elementary Districts | Less than \$46,216.70 | Less than \$113,484.40 | Less than \$63,053.30 | Less than \$88,250.90 |
| Local G.O. Bonds | \$6,572 | \$7,474 | \$3,081 | \$1,334 |
| State G.O. Bonds | \$1,442 | \$2,057 | \$3,495 | \$3,492 |
| Developer Fees | \$753 | \$683 | \$672 | \$766 |
| Total | \$9,604 | \$11,594 | \$8,353 | \$5,995 |
| High School Districts | Less than \$49,557.30 | Less than \$80,698.30 | Less than \$28,080.70 | Less than \$25,953.70 |
| Local G.O. Bonds | \$11,827 | \$14,543 | \$6,769 | \$6,757 |
| State G.O. Bonds | \$2,912 | \$2,101 | \$3,220 | \$3,126 |
| Developer Fees | \$1,102 | \$909 | \$836 | \$808 |
| Total | \$16,837 | \$19,485 | \$11,310 | \$10,741 |

Notes: Per-pupil revenue figures represent sum of revenues from 2006-2015 divided by average enrollment over time period. Revenue figures are reported separately for districts located in principal cities, suburbs of cities, towns and rural areas, respectively. Revenue figures are adjusted for inflation and reported in real 2016 dollars.

Appendix B: SFP Agency Structure

To obtain SFP funding for new school construction and modernization projects, school districts must interact with and obtain approval from a number of state agencies. These include the State Allocation Board (SAB), the Office of Public School Construction (OPSC), the Division of the State Architect (DSA) in the Department of General Services (DGS), the School Facilities & Transportation Services Division (SFTSD) of the California Department of Education (CDE), the Department of Toxic Substance Control (DTSA), and the Department of Industrial Relations (DIR). The SAB and these five state agencies oversee state-mandated facility standards and approval processes that school districts must follow to access state funds.

The SAB is responsible for allocating state funds for K-12 school facilities by reviewing and approving applications for eligibility and funding, acting on appeals, and adopting policies and regulations for the programs it administers. The SAB meets monthly and is comprised of ten members: the Director of the Department of Finance or designee (appointed by the governor, this position has served as the traditional SAB chair); the Director of the Department of General Services or designee (appointed by the governor); the State Superintendent of Public Instruction (SSPI) or designee (SSPI is an elected position that is separate from the governor's administration); one person appointed by the governor; three State Senators, appointed by the Senate Rules Committee (two from the majority party and one from the minority party); and three State Assembly members, appointed by the Speaker of the Assembly (two from the majority party and one from the minority party). The State Board of Education has no formal participation on the SAB.

The Office of Public School Construction (OPSC) is the administrative arm of the SAB. Its primary responsibilities include: allocating state funds for projects approved by the SAB, reviewing eligibility and funding applications, and ensuring that funds are allocated properly and in accordance with the law and decisions made by the SAB.

The California Department of Education's School Facilities & Transportation Services Division (SFTSD) reviews and approves a school district's site and building design plans. The SFTSD works with school districts to amend the plans to meet the state's educational facility planning and design standards as outlined in *California Code of Regulations, Title 5* (§ 14001-14030). *Title 5* focuses on minimum state standards, school site standards, and standards for planning and approval of school facilities.⁷⁷ The current language in *Title 5* was developed by the CDE and adopted in 1993 following passage of Assembly Bill (AB) 1603 and codified into the

⁷⁷ Article 1. General Standards (§ 14001. Minimum Standards); Article 2. School Sites (§ 14010. Standards for School Site Selection, § 14011. Procedures for Site Acquisition – State Funded School Districts, § 14012. Procedures for Site Acquisition – Locally-Funded School Districts); Article 4: Standards, Planning and Approval of School Facilities (§ 14030. Standards for Development of Plans for the Design and Construction of School Facilities § 14031. Plan Approval Procedures for State-Funded School Districts, § 14032. Plan Approval for State-Funded School Districts, § 14033. Applicability of Plan Standards to Locally-Funded School Districts, § 14034. Planning Guides, § 14035. Abandonment of Inadequate Facilities, § 14036. Integrated Facilities). See: <http://www.cde.ca.gov/ls/fa/sf/title5regs.asp>

California Education Code § 17251. The legislation required the State Superintendent of Public Instruction (SSPI) to develop minimum educational design standards, site selection standards, and plan approval standards for new public school facilities in California. *Title 5* is a key statutory vehicle for promoting the health, safety and educational appropriateness of new K-12 school facilities in California.⁷⁸ The last update of *Title 5* occurred in 2000.⁷⁹ School construction projects must get California Department of Education approval before the district can apply for SFP funding.

The Department of General Services, Division of the State Architect (DSA) reviews school facility plans and specifications to ensure that they comply with California's building codes. Typically, districts submit their projects to DSA after they receive CDE approval. The DSA review focuses on structural and seismic safety of school buildings in accordance with Title 24 of the *California Code of Regulations*.⁸⁰ Title 24 codifies the Field Act, which was passed in response to the 6.3 magnitude Long Beach earthquake that destroyed or rendered unsafe 230 school buildings in 1933. The Field Act established minimum construction standards for public school buildings in California. DSA also reviews projects for compliance with fire and life safety and universal design codes. School districts submit detailed school construction and engineering plans for DSA review against Title 24 standards. School construction projects must get approval from the DSA before they are eligible for state SFP funding.

The California Department of Toxic Substances Control (DTSC) conducts an environmental hazards assessment of potential new school sites or existing sites planned for major expansion. The DTSC will, if necessary, assist districts with the development and implementation of a mitigation plan.

The final agency involved in the process is the Department of Industrial Relations (DIR). The DIR's primary responsibility is to ensure that school districts are in compliance with labor laws relating to contractors and employers. Before any funding from the SFP is released to a school district, the district must obtain certification that its Labor Compliance Program has been approved by the DIR. Figure 1B provides an overview of California's public-school construction process. As the figure makes clear, despite the SFP being specifically designed to simplify and streamline the process of receiving state aid, the system remains relatively complex.

⁷⁸ Construction or modernization projects that do not receive any state capital funding must also meet the Title 5 standards but do not require CDE approval. In this case, the district would self-certify compliance. As of this writing, public charter schools and projects by County Offices of Education are not required to meet the *Title 5* standards in their projects.

⁷⁹ See Vincent (2016) for more details on California state standards and requirements for K-12 public school facility planning and design.

⁸⁰ See: <http://www.dgs.ca.gov/dsa/Programs/progProject/projsubmitplanning/juris.aspx>

Appendix C: Career Technical Education Facilities Program

The SFP provides capital funding for new construction, modernization, and/or purchase of equipment (with at least a ten-year average useful life expectancy) for Career Technical Education (CTE) facilities. CTE is a program of study that involves a multiyear sequence of courses that integrates core academic knowledge with technical and occupational knowledge to provide students with a pathway to postsecondary education and careers.⁸¹ School districts submit funding applications to OPSC once they have DSA and CDE approval or they may request a reservation of funds from the CTE program prior to these approvals. If they choose the latter, they must submit the approvals within 12 months. Projects can have standalone CTE funding or may be combined with a project qualifying for New Construction or Modernization program funding. The school district must have a CTE education plan and an active local CTE advisory committee, in accordance with CDE's CTE Model Curriculum Standards.⁸² The CDE reviews and scores projects based on merits of the CTE plan, which must contain enrollment projections, identify feeder schools and industry partners, and provide evidence that the district will meet all statutory obligations relating to CTE. Projects and plans that meet CDE's minimum score are eligible to submit an application for funding. Funding is a 50/50 state and local match. Districts have the option of requesting a loan for all or part of their required 50 percent match. Funding order is based on the project's locale (as determined by the NCES locale code) and CDE score. A portion of funds are apportioned to projects in each locale.

⁸¹ The CDE currently recognizes 15 industry sectors for CTE programs. For more detail see: <http://www.dgs.ca.gov/opsc/Programs/careertechnicaleducationfacilitiesprogram.aspx>; and <https://www.cde.ca.gov/ci/ct/sf/ctemcstandards.asp>

⁸² <https://www.cde.ca.gov/ci/ct/sf/ctemcstandards.asp>

Appendix D: Federal Funding for Charter School Facility Funding

California charter schools have taken advantage of federal funding available for charter school facilities. These include both charter specific and broader investment strategies leveraged by charter schools to finance their facility needs. New Market Tax Credits (NMTC) is an example of a broader program that has been heavily utilized by charter schools. In 2000, NMTC were established to provide a 39% federal tax credit for investors who fund community development efforts in low income neighborhoods. The NMTC program has supported a wide range of programs, including housing, health, technology, childcare, and education. From 2005-2014, charter schools in California received over \$318 million from NMTC.

The Charter School Facilities Incentive Grants Program (CSFIGP) is a federally funded program specifically designed to provide charter schools with assistance for facility costs. The CSFIGP was implemented in 2005, shortly after the California School Finance Authority (CSFA) was awarded a grant of \$49.25 million from the U.S. Department of Education to assist charter schools in obtaining adequate school facilities. CSFA is now administering its third grant of \$50 million, bringing the total award to \$150 million. The proceeds of the grant are to be allocated over a five-year period. Grant awards can be used to cover a charter school's rent, lease, mortgage or debt service costs, or for the costs associated with the purchase, design and construction of facilities.⁸³ Similar to the SB 740 program, the CSFIGP allows districts to receive a reimbursement of up to \$1,100 per-pupil for rental and leasing expenditures but no more than 75% of the charter school's total annual rental and leasing cost. Furthermore, no grant may exceed \$250,000 per year, with a maximum grant period of three years. The CSFIGP also provides per-pupil grants for the construction and renovation of school facilities. Charter schools are awarded \$1,000 per-pupil to cover up to 75% of the annual costs of eligible construction projects. Individual project grants are limited to a maximum of \$500,000 per year, with a maximum grant period of three years. To qualify for a grant, a charter school must be in good standing with its chartering authority and have completed at least one year of instructional activity.⁸⁴ Funding priority for CSFIGP grants is based on a preference point system: points are based on: 1) the percentage of free or reduced-price students attending a school; 2) location in an overcrowded school district; and 3) whether the school is a nonprofit entity.

⁸³ California School Finance Authority, Text of Regulations, Charter School Facilities Program – Implementation of State Charter School Facilities Incentive Grant Program. Full text is available at: <http://www.treasurer.ca.gov/csfa/incentive.asp>

⁸⁴ In addition, charter schools receiving funding through the Charter School Facility Program are ineligible for grants.