
SENATE COMMITTEE ON EDUCATION

Senator Benjamin Allen, Chair

2017 - 2018 Regular

Bill No:	AB 1550	Hearing Date:	June 14, 2017
Author:	Limón		
Version:	April 18, 2017		
Urgency:	No	Fiscal:	No
Consultant:	Ian Johnson		

Subject: School finance: school bonds: small school district

NOTE: This bill has been referred to the Committees on Education and Governance and Finance. A "do pass" motion should include referral to the Committee on Governance and Finance.

SUMMARY

This bill authorizes two or more small school districts to form a joint powers authority to authorize, issue, and sell local bonds for construction and other related purposes.

BACKGROUND

Existing law:

- 1) Authorizes school districts and community college districts to issue general obligation (GO) bonds upon approval by voters and establishes a process and guidelines for such issuances under the Education Code. Authorizes any city, county, city and county, school district, community college district, or special district to issue GO bonds, secured by the levy of ad valorem taxes, and establishes a process for such issuances under the Government Code.
- 2) Specifies that the total amount of bonds issued by a school district shall not exceed 1.25 percent of the taxable property of the district and that the tax rate shall not exceed \$30 per \$100,000 of taxable property.
- 3) Specifies that the total amount of bonds issued by a unified school district and a community college district shall not exceed 2.5 percent of the taxable property of the district and that the tax rate shall not exceed \$60 per \$100,000 of taxable property for a unified school district and \$25 per \$100,000 of taxable property for a community college district.
- 4) Specifies that GO bonds issued and sold by or on behalf of a local agency shall be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax.

ANALYSIS

This bill:

- 1) Authorizes two or more small school districts to form a joint powers authority (JPA) to authorize, issue, and sell bonds for construction and other related purposes.
- 2) Specifies that a JPA shall be deemed a school district for purposes of issuing bonds and may exercise all authority granted to a school district, including that the bonds shall be authorized, issued and sold in the same manner as school districts.
- 3) Defines “small school district” for purposes of the bill as a school district with fewer than 2,501 units of average daily attendance (ADA).

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author, “Small school districts, which constitute more than 600 of the 1,000 school districts in California, are oftentimes not eligible for an AAA bond rating when they issue debt because they are too small to have assets necessary to guarantee the borrowing.”

This bill is intended to assist small school districts, defined as school districts with 2500 or fewer ADA, in obtaining lower interest rates and reducing issuance costs.

- 2) ***Proposition 39 of 2000.*** California voters approved Proposition 39 in the 2000 general election. This proposition lowered the voting requirement for passage of local school bond measures from two-thirds to 55 percent. In addition, it allows property taxes to exceed the one percent cap in order to repay the bonds. To issue a bond under the lower voter threshold, certain requirements must be fulfilled:
 - a) Bond proceeds can be used only for construction, rehabilitation, equipping school facilities, or acquisition/lease of real property for school facilities.
 - b) A list of school projects to be funded must be included in the issuance and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list.
 - c) School boards are required to conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure.
- 3) ***School districts increasingly rely on local bonds.*** According to the California Debt and Investment Advisory Commission, even though the voter approval process may be time intensive and costly to mount, California local governments have continued to rely on general obligation (GO) bonds as a financing tool to construct, acquire, and make improvements to real property such as public buildings, roads, school facilities, and equipment.

Once primarily used by public utilities for capital improvements, GO bonds now are primarily issued by school districts for K-12 improvements. Most of the GO

bond issuances for education purposes occur in three regions of the state—Los Angeles, the Bay Area, and San Diego. However, even in other areas of the state, the use of local bonds for education has increased substantially.

- 4) ***Bond issuance costs are higher for small school districts.*** A research brief by the Haas Institute, “Doubly Bound: The Costs of Issuing Municipal Bonds” included the following summary: “There are a variety of expenses associated with a bond issuance when a government sells bonds. The amount of funds borrowed is not equal to that received by the government due to the costs of issuance. Those costs are deducted from the bond proceeds before the bond proceeds reach the state or local level.

Based upon a study of the cost of issuance for 812 bond issuances since 2012, we found that costs of issuing bonds average 1.02 percent of the bond’s principal amount, but this percentage varied widely. There are examples of significant variance from this average. For example, a bond issuance for \$2.1 million dollars for Dehesa School District incurred \$200,138 in fees, over 9 percent of the principal amount. Had this issuance followed the 1.02 percent average, its issuance fees would have been nearer \$21,000. In our findings, six California school districts incurred costs in excess of 8.5 percent.”

The brief makes several findings related to bond issuances, including that smaller issuers typically pay higher costs. Given this finding, could smaller school districts benefit from combining their bond issuances as authorized by this bill?

- 5) ***Certain educational joint powers authorities can already issue local bonds.*** Regional occupational centers are career technical education programs allowing students from multiple schools or districts to participate in career training regardless of the geographical location of their residence in a county or region. Existing law allows these centers to be run by a single school district, a county, or two or more school districts that form a joint powers agreement (JPA). Centers run by school district JPAs are authorized to issue bonds for construction and other related purposes totaling no more than one-half of one percent of the taxable property of the area served by the center. Should other types of JPAs, such as those formed by two or more small school districts, also be provided this option to help meet their facilities and other related needs?

SUPPORT

Small School Districts’ Association (Sponsor)
California School Boards Association

OPPOSITION

None received