
SENATE COMMITTEE ON GOVERNANCE AND FINANCE

Senator Anna M. Caballero, Chair

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EDUCATION FINANCE: SCHOOL FACILITIES: PUBLIC PRESCHOOL, K–12, AND COLLEGE HEALTH AND SAFETY BOND ACT OF 2024

Enacts the Public Preschool, K–12, and College Health and Safety Bond Act of 2024, which among other provisions, places a \$15.5 billion general obligation bond before voters at the March 5, 2024, general election to finance school facilities.

Background

When public agencies issue bonds, they essentially borrow money from investors, who provide cash in exchange for the agencies' commitment to repay the principal amount of the bond plus interest in the future. Bonds are usually either revenue bonds, which repay investors out of revenue generated from the project the agency buys with bond proceeds or from a specific dedicated revenue source, or general obligation (GO) bonds, which the public agency pays out of general revenues and are guaranteed by its full faith and credit.

State general obligation bonds. Section One of Article XVI of the California Constitution and the state's General Obligation Bond Law guide the issuance of the state's GO debt. The Constitution allows the Legislature to place GO bonds on the ballot for specific purposes with a two-thirds vote of the Assembly and Senate. Voters also can place bonds on the ballot by initiative, as they have for parks, water projects, high-speed rail, and stem cell research, among others. Either way, GO bonds must be ratified by majority vote of the state's electorate. Unlike local GO bonds, approval by the state's electorate does not automatically trigger an increased tax to repay the bond. The Constitution commits the state to repay investors from general revenues above all other claims, except payments to public education.

California voters approved \$38.4 billion of GO bonds between 1974 and 1999, which increased significantly to \$112 billion between 2000 and 2010, then decreased to slightly less than \$28 billion between 2010 and 2018. In 2020, voters approved Proposition 14, which authorized \$5.5 billion in GO bonds for stem cell and other medical research.

Bond acts have standard provisions that authorize the State Treasurer to sell a specified amount of bonds, and generally include several uniform provisions that:

- Establish the state's obligation to repay them, and pledge its full faith and credit to repayment;
- Set forth issuance procedures, and link the bond act to the state's General Obligation Bond Law;

- Designate a finance committee with specified membership, chaired by the State Treasurer;
- Charge the committee with determining whether it is “necessary or desirable” to issue the bonds; and
- Add other mechanisms necessary for the State Treasurer and the Department of Finance (DOF) to implement the bond act, including allowing the board to request a loan from the Pooled Money Investment Board to advance funds for bond-funded programs prior to the bond sale, among others.

In bond acts, the Legislature generally:

- Sets forth categories of projects eligible for bond funds, such as library construction or school facility modernization;
- Chooses an administrative agency to award the funds, such as the State Librarian or the State Allocation Board;
- Details the criteria to guide the administrative agency’s funding in each category,
- Enacts enforcement and audit provisions; and
- Provides for an election to approve the bond act.

Should the voters approve the bond act, the Legislature generally appropriates funds to the chosen agencies to fund projects consistent with the criteria, generally as part of the Budget Act. However, some bond acts do not require direct legislative appropriation, such as school facility bonds. DOF surveys agencies to determine the need for bond funds based on a project’s readiness, and then asks the State Treasurer to sell bonds necessary to fund those projects. After the bond sale, DOF determines which bond acts and agencies receive bond proceeds.

The Legislature generally proposed, and voters enacted one bond act every two years to finance school construction from 1982-1992. After voters rejected one in 1994, there were six school bond acts between 1996 and 2006. Ten years later, voters approved the last K-12 school facilities bonds, then Kindergarten through Community College Public Education Facilities Bond Act of 2016 (Proposition 51), which authorized \$7 billion of GO bonds for K-12 school facilities and \$2 billion for community college facilities. In March 2020, voters rejected Proposition 13, which would have authorized the issuance of \$15 billion in GO bonds to fund school, community college, as well as UC and CSU facility projects, among other changes (AB 48, O’Donnell).

K-12 School Construction Finance. The Legislature created the State Allocation Board (SAB) in 1947 to allocate state funds for school construction. The board consists of:

- Two members of the Senate appointed by the Senate Rules Committee,
- Two members of the Assembly appointed by the Speaker of the Assembly,
- The Director of the Department of General Services,
- The Director of Finance, and
- The State Superintendent of Public Instruction.

SAB is responsible for determining the allocation of state resources used for the construction, modernization and maintenance of local public school facilities. Additionally, SAB administers the State School Facility Program (SFP), and serves as the policy level body for the programs administered by the Office of Public School Construction (OPSC). SAB allocates both new

construction grants, where costs are split 50/50 between the state and the local school district, as well as modernization grants, where the split is 60/40, although local education agencies that qualify for financial hardship can receive a 100% grant.

Constructing or modernizing a school building begins with the school district, which determines the type and size of the school building needed using criteria for facility needs set by the California Department of Education (CDE). Site selection, approval, and acquisition can take longer than a year, during which time the school district usually tries to obtain voter approval for a local bond or secure alternative funding for its share of the project. Without this funding, the school district cannot meet the 50% local funding requirement for new construction projects or the 40% local funding requirement for modernization projects. During this time, CDE reviews and approves the site selection and construction plans.

The district hires an architect to develop plans and specifications for the school. Once the architect completes the plans and specifications, the district sends them to the Division of the State Architect (DSA) within the Department of General Services for approval. The district also applies to OPSC, and must include a verification of the local 50% or 40% share of the project cost, stamped DSA plans, and approval of the site and plans by the CDE. Qualifying hardship districts can provide lower local matches. OPSC then presents the application to the SAB for an unfunded approval, which if granted, SAB funds, or “apportions,” as the Treasurer sells bonds, assuming bond authorization exists, and DOF allocates SAB bond proceeds.

In addition to new construction and modernization funding, SAB also operates the charter school facilities program, which provides a charter school with funding to construct new facilities or to rehabilitate existing district-owned facilities for charter school use. To qualify for funding, a charter must be deemed financially sound by the California School Finance Authority and meet the eligibility criteria outlined in law. A charter, or school district filing on behalf of a charter under this program, may receive a reservation for funding by submitting a preliminary application prior to receiving the necessary approvals from other State entities.

The 2022-23 State Budget allocates all remaining state bond authority remaining in the SFP and appropriates about \$4.3 billion one-time General Fund to support new construction and modernization programs. According to the Senate Education Committee, as of the February 2023 meeting of the SAB, about \$614.7 million remains in General Fund authority and about \$700 million remains in bond authority in the SFP for the 2022-23 fiscal year.

Local school bonds. Article XIII A, Section 1 of the California Constitution requires counties, cities, and school districts to get voter approval for long-term debt. Counties, cities, school districts, community college districts, and some special districts can issue GO bonds, secured by *ad valorem*, or according to value, property tax revenues with 2/3-voter approval (Proposition 46, 1986). Proposition 39 (2000) allows school districts and school facility improvement districts to issue GO bonds to build, rehabilitate, or replace schools with 55% voter approval subject to certain conditions, including tax limits.

When a school or community college district’s voters authorize a bond, they authorize an additional property tax rate in an amount necessary to repay the bond according to the schedule determined by its board. The tax applies to the assessed valuation of all property within the school or community college district, and is added onto each district residents’ property tax bill. However, community college and school districts are restricted by law from issuing a total amount of bonds that exceeds 1.25% of the taxable value of property in the district as shown by

the last equalized assessment. Unified school districts and community college districts are subject to a 2.5% cap.

Higher education facility construction. The California Community College (CCC) system consists of 116 campuses operated by 73 community college districts. The 18-member Board of Governors of California Community Colleges provides statewide leadership. Historically, the state's categorical program for CCC facilities improvements - Physical Plant and Instructional Support - funds facilities maintenance and repairs, the replacement of instruction-related equipment and library materials, hazardous substances abatement, and water conservation projects, among others. Since 2015-16, the Legislature has provided a total of \$1.8 billion for the program, including \$841 million in the 2022-23 Budget Act. However, the Governor's proposed 2023-24 Budget reduces the 2022-23 amount by \$213 million to \$628 million.

The University of California's (UC's) ten campuses are governed by the Board of Regents; while not governed by the Board of Regents, its College of Law in San Francisco is the state's oldest law school. The state has funded UC's academic facilities, including classrooms, laboratories, and faculty offices, but generally not self-supporting projects like student housing and parking lots. It has also funded certain campus infrastructure, such as central plants, utility distribution systems, and pedestrian pathways. UC's most recent Capital Financing Plan covers the current year (2022-23) and the next five years (through 2027-28). This plan identifies \$23.2 billion in projects proposed for this period, including \$10.2 billion in academic facilities and infrastructure projects, \$6.6 billion in self-supporting projects, and \$6.4 billion in medical center projects. The 2022-23 Budget Act provided \$366 million one-time General Fund to UC for four specific capital projects, along with \$125 million one-time General Fund for deferred maintenance, seismic safety, and energy efficiency projects across the system. The Governor's 2023-24 Budget proposes to delay a total of \$366 million one-time General Fund provided for the four UC capital projects until 2024-25.

The California State University (CSU) has 23 campuses and is governed by a 25-member Board of Trustees. Much like UC, the state has funded CSU's academic facilities. CSU's most recent five-year plan identifies \$29.6 billion in projects proposed for 2023-24 through 2027-28, subject to available funding, including \$22.7 billion in academic facilities and infrastructure projects as well as \$6.9 billion in self-supporting projects. The 2022-23 Budget Act appropriated \$404.8 million to numerous capital investments across CSU campuses. However, unlike the proposal for UC that delays state funding for the projects, the Governor's 2023-24 Budget proposes shifting these amounts from the General Fund to CSU-issued lease revenue bonds, while including \$27 million to support the underlying debt service on those bonds.

Both CSU and UC have authority to issue their own revenue bonds, which are bonds repaid and secured by a specified pledge of revenues, such as student housing or parking fees, and not backed by the full faith and credit of the state like GO bonds. Additionally, the State Public Works Board (SPWB) can also issue lease revenue bonds where CSU or UC lease facilities from the Board, and the Legislature appropriates funds to pay the leases. These bonds are not general obligations because the Legislature is not obligated to pay the lease rentals if the building is not available for use and occupancy.

Historically, GO bonds and SPWB lease revenue bonds have financed many UC and CSU capital improvements. However, the Legislature changed the way the state funds UC and CSU capital outlay expenditures; previously, each system would distinguish capital outlay from other costs when requesting funding as part of the Budget Act. Today, UC and CSU include capital

outlay with all of its other spending. To implement this change, the Legislature provided UC with increased flexibility to pursue capital outlay projects outside of the annual budget process, after approval by DOF and review by the Joint Legislative Budget Committee (AB 94, Committee on Budget, 2013). AB 94 allowed UC to pledge up to 15% of the state funds provided in its General Fund support budget less GO debt payments and lease payments towards capital outlay, lease revenue bond debt, and pay-as-you-go financing of infrastructure. The Legislature also added almost identical authority for CSU to finance capital projects in 2014 (SB 860, Committee on Budget and Fiscal Review).

The last statewide GO bond to include support for public higher education was Proposition 1D (AB 127, Núñez and Perata, 2006), which authorized the sale of \$10.4 billion in GO bonds, of which \$3 billion was earmarked for higher education facilities. Of this amount, \$1.5 billion was provided for the community colleges, \$890 million for UC, and \$690 million for CSU. Almost all of the bonds have been issued according to the State Treasurer.

Arguing that California's school facilities are need of improvement, the author wants to place a GO bond before voters to fund facility construction.

Proposed Law

Senate Bill 28 enacts the Public Preschool, K–12, and College Health and Safety Bond Act of 2024, which, among other provisions:

- Places a \$15 billion bond before voters at the March 5, 2024, primary election to fund facility construction and modernization for K-12 Schools, Community Colleges, CSU, and UC.
- Enacts oversight measures for Community Colleges, CSU, and UC to receive bond proceeds.
- Incorporates standard provisions necessary for the Treasurer to sell bonds, and for DOF to allocate funds to the agencies charged with allocating proceeds for its purposes.
- Makes several changes to the SFP, and to the roles and responsibilities of CDE, SAB, and school districts.
- Increases tax limits for school districts to issue bonds.

State general obligation bonds. In addition to its authorization to place a bond before voters at the March 4, 2024 primary election, SB 28 incorporates standard provisions in GO bond law, either explicitly or by reference, with some modifications for each of its bond authorizations.

The measure provides the \$15.5 billion bond authorization may be issued and sold in the following ways:

- \$9.5 billion for Preschool to Grade 12 school facilities, including:
 - \$2.8 billion for new construction, of which 10% is available to small school districts. The bill also allocates proceeds up to the amount necessary to fund the list of acknowledged applications due to a lack of authority from GO bonds approved before 2018 to support new construction submitted before February 29, 2024;
 - \$5.2 billion for modernization of which 10% is available to small school districts. The bill also allocates proceeds up to the amount necessary to fund the list of

acknowledged applications due to a lack of authority from GO bonds approved before 2018 to support new construction submitted before February 29, 2024. Additionally, the bill allows up to \$150 million from this allocation to remediate lead in water;

- \$500 million for charter schools;
- \$500 million for career technical education;
- \$250 million for constructing new or renovating school mental health and wellness centers; and
- \$250 million for school stadium lighting projects.
- \$2 billion for California Community Colleges.
- \$2 billion for UC, including the UC College of the Law in San Francisco, \$50 million of which is reserved for the Charles M. Drew School of Medicine.
- \$2 billion for CSU.

SB 28 creates the 2024 State School Facilities Fund within the State Treasury, directs the proceeds of any sale of bonds authorized by the bill into the new fund, and continuously appropriates those funds to SAB. SAB may make apportionments to districts up to the amount on deposit in each fund and any amounts authorized by each bond, but not yet sold. The bill continues the State School Building Finance Committee, composed of the State Treasurer as Chair, the Governor, the Controller, the Director of Finance, and the State Superintendent of Public Instruction. The measure directs the Committee to determine whether it is necessary or desirable to issue the bonds upon request of SAB.

The measure creates the 2022 Community College Outlay Fund, to be used to assist in meeting community college capital outlay financing needs. The measure uses the Higher Education Facilities Finance Committee, created by the Higher Education Facilities Bond Act of 1986, and consisting of the Governor, the Controller, the Treasurer, the Director of Finance, the President of UC, the Chancellor of the CSU, the Chancellor of the California Community Colleges, and the Treasurer as Chair. SB 28 directs the Committee to authorize the issuance of bonds only to the extent necessary to fund the related apportionments for the purposes described in this bill that are expressly authorized by the Legislature in the annual Budget Act. Any request for bond funds for California Community Colleges must be accompanied by the five-year capital outlay plan that reflects the needs and priorities of the community college system and is prioritized on a statewide basis, including a schedule that prioritizes the seismic retrofitting needed to significantly reduce seismic hazards in buildings identified as high priority by that particular college.

The bill also creates the 2022 University Capital Outlay Bond Fund, and also uses the Higher Education Facilities Finance Committee, created by the Higher Education Facilities Bond Act of 1986. The bill considers the Charles R. Drew University of Medicine an off-campus center within UC. It makes funds available to UC and CSU for assisting in meeting its capital outlay financing needs, including:

- Construction, reconstruction, and remodeling of existing or new facilities and related fixtures;
- Equipping of new, renovated, or reconstructed facilities;
- Funding for the payment of preconstruction costs; and
- Construction of off-campus facilities, so long as the respective governing board approved the construction.

SB 28 directs the Committee to authorize the issuance of bonds only to the extent necessary to fund the related apportionments for the purposes described in this bill that are expressly authorized by the Legislature in the annual Budget Act. Pursuant to that legislative direction, the Committee determines by resolution whether or not it is necessary or desirable to issue bonds.

As a condition of receiving funding from its proposed bond, SB 28 requires the CSU Board of Trustees and the UC Board of Regents to adopt a five-year affordable student housing plan for each campus with specified contents. The measure also requires CSU and UC to adopt a five-year affordable student housing plan for each campus with specified contents, as well as updated reports for each campus by October 15th of each year. The CSU Board of Trustees and UC Board of Regents must use its affordable student housing plan as a key input in prioritizing projects from campuses it determines are improving, or will improve, access to affordable student housing, in addition to other key inputs.

The measure also contains legislative findings and declarations, including that the University of California and the California State University must annually consider the inclusion of intersegmental facilities as part of those entities' annual capital outlay planning process, and annually report their findings to the budget committees of each house of the Legislature.

School facilities program. The measure makes several changes to the roles and responsibilities of school districts, CDE, SAB, as well as other changes to SFP.

Among other changes, SB 28 requires a school district to submit to OPSC a new or updated five-year facilities master plan with specified contents approved by its governing board and to update the plan as appropriate to participate in SFP. School districts must include the following in their applications:

- A school facilities master plan, as required by the bill.
- A certification by the school district's board acknowledging the applicable school facilities program grant agreement and the school facilities program's associated audit requirements.
- Any information and forms required by the board and department pursuant to law.
- Written approval from CDE that the site selection, and the building plans and specifications, complies with its standards under existing law.
- Plan approval of the project by the DSA.
- A certification by the governing board of the school district indicating that upon receiving an apportionment, the school district will have entered into construction contracts within 90 days for at least 50% of the work included in the scope of the application.
- For modernization projects, a certification that the school district complies with the requirements of a now-repealed section of the Health and Safety Code requiring community water systems serving school districts to test for lead.
- The applicable grant agreement associated with the school district's applicable project.

SAB must disburse funds to an eligible district upon certification that the school district has expended local matching funds, deposited in the county fund, or funds will be expended by the time the project is completed. The school district must also certify that its master plan is consistent with the goals, policies, and objectives of its local control and accountability plan.

The bill requires school districts when seeking a health and safety grant to demonstrate excessive cost and a need to protect student health and safety due to an unacceptable risk of injury to occupants due to a seismic event. The bill also states that school districts are eligible for health and safety grants when they prepare and submit to SAB a cost-benefit analysis that indicates the minimum cost to remain in the classroom or related facility and mitigate the health and safety problem compared to the current replacement cost.

The bill creates a prioritization system for CDE to use when reviewing applications. Among other changes, SB 28 requires CDE to prioritize on a quarterly basis the processing of new construction and modernization applications as follows:

- First, for health and safety projects that meet specified requirements.
- Second, for school districts requesting financial hardship assistance.
- Third, for new construction, projects addressing lead remediation.
- Fourth, for projects that were submitted, but not processed, in the preceding two quarters; for modernization, those applications go to the top of the list based on the date order of their submittal.
- Fifth, for projects addressing severe overcrowding.
- Sixth, based on a district's gross bonding capacity and the percentage of students that are low-income, English learners, or foster youth.

CDE must further prioritize projects that include the use of a project labor agreement. The measure also provides that CDE must process applications for new construction that represent 35% of the total funding requests to be processed, and applications for modernization that represent 65% of the total funding requests to be processed each quarter, although it may adjust these percentages if applications are insufficient to meet them.

The bill directs CDE to compute adjustments on a points system based on a district's bonding capacity divided by its total enrollment, and identify its unduplicated pupil percentage for purposes of the local control funding formula. SAB must adjust a school district's contribution based on these ranking adjustments.

Among other changes, SB 28:

- Allows SAB to provide assistance to districts procuring interim housing to school districts and county offices of education impacted by a natural disaster.
- Permits SAB to waive for up to three years nonuse payments for a school district directly impacted by a natural disaster for which the Governor has declared a state of emergency.
- Increases the threshold for implementing unused site fees payable by school districts to SAB from sites valued at \$20,000 to sites valued at \$40,000.
- Requires SAB to provide a grant to test for lead in water outlets used for drinking water or preparing food that were constructed before January 1, 2010 and for remediation of any water outlet used for drinking or preparing food with lead levels in excess of 15 parts per billion, and allows for increased grants for these purposes.
- Expands school district eligibility for financial hardship assistance by increasing the total bonding capacity limit from \$5 million to \$15 million, adjusted annually for inflation.

The bill authorizes grant funding for new construction projects to be used for infrastructure necessary to provide access to broadband internet, seismic mitigation, construction of a school

kitchen, transitional kindergarten classroom, public preschool facility, or a facility to support school nurses and counselors, and also expands allowable uses for reconstruction to include remediating water outlets, among others. Modernization grants may also be used to remediate water outlets; lead abatement, control, or management; demolition of existing school site buildings if over 50 years old if a cost-benefit analysis is provided with specified contents. The measure prohibits new construction or modernization grants to be used for electronic devices with a useful life of less than three years. SB 28 also allows a school district with a facility located on a military installation to receive a modernization grant to replace portables that are at least ten years old.

The bill also makes technical and conforming changes to the Leroy F. Greene School Facilities Construction Act of 1998, including repealing several sections of outdated statute. The measure also makes conforming changes to the Charter Schools Facilities Program to make it consistent with many changes made to the SFP.

School district bonds. SB 28 increases the cap on the total amount of bonds that a community college or school district can issue from 1.25% to 2%, and from 2.5% to 4% for a unified district. SB 28 makes these changes for bonds issued at 2/3 vote, as well as under Prop. 39's 55% threshold.

Other provisions. The bill further requires the governing board of a school district, governing board of a community college district, county superintendent of schools, governing body of a charter school, the CSU Board of Trustees, the UC Regents, or the Board of Directors of the UC College of the Law in San Francisco to conduct an independent performance audit of any project funded by its bond to ensure that the use of the applicable funds has been reviewed for expenditure consistent with the requirements of all applicable laws. The audit must be posted on the relevant agency's internet website. Each of the above entities must also hold a public hearing before approving a request for consideration for bond funding, and post specified information to its website.

The bill caps at 5% of funds allocated any costs to support the administration of its programs. The measure also makes technical and conforming changes. The bill makes legislative findings and declarations, and contains a severability clause.

State Revenue Impact

No estimate.

Comments

1. **Purpose of the bill.** According to the author, "Senate Bill 28 authorizes a \$15.5 billion bond on the 2024 ballot for facilities for K-12 through higher education. This measure alleviates the financial burden on both the institutions and students, while also constructing facilities that reflect the needs of the 21st century students. The last K-12 and higher education bond passed in 2006. However, by 2012 all of those funds were exhausted. Reflecting the grave need for these funds, between 2015 and 2019, 108 schools in California closed at least once due to poor facility conditions. The majority of these deteriorating schools are in high-need districts, in which more than 55% of students are low income, English Learners, experiencing homelessness, or foster youth. Additionally, the University of California's existing backlog of deferred maintenance totals \$7.3 billion. The California State University's totals \$6.5 billion. These include addressing

fire, safety, and seismic deficiencies, and modernizing and constructing facilities to keep pace with current technology and workforce needs. This bond is crucial for bringing all of our public schools, K-12 through higher education, into the 21st century – and ensuring students are learning in a safe, healthy and suitable environment.”

2. Role reversal? SB 28 authorizes the sale of GO bonds contingent on voter approval to fund capital improvements for UC and CSU authorized in the annual Budget Act. However, the Legislature has already changed UC and CSU’s capital outlay programs for a future in which the state would not approve GO bond funding; instead, UC and CSU have to integrate capital outlay funding into their general request for resources, and use that funding as security when issuing revenue bonds under its own name. The Legislature increased funding for both systems to compensate. While UC and CSU have significant capital outlay needs, and student fees have escalated significantly, should the Legislature again turn to GO bonds? The Committee may wish to consider whether GO bonds are the right source to fund UC and CSU capital outlay.

3. Sixteen tons. Setting the right amount of state GO debt is difficult; both the State Treasurer and the Legislative Analyst’s Office (LAO) state that there is no correct level. Instead, experts suggest that states should look at three criteria: *affordability*, *comparability*, and *optimality*.¹

California currently has \$67.9 billion of GO and \$8.1 billion of lease revenue debt outstanding, which is *affordable*. The Governor’s 2021 Five-Year Infrastructure Plan estimates that the Debt Service Ratio, or the ratio between debt service and general fund revenues, as 2.68% in 2021-22, 2.84% in 2022-23, and between 2.67% and 2.7% for the next three fiscal years. Annual expenditures on debt service have grown from \$2.9 billion in 2000-01 to \$5.8 billion in 2025-26. Additionally, all but 1.4% in outstanding debt is paid at a fixed rate of interest. While debt service is currently a small part of the State’s budget, every dollar spent on debt service reduces the funding that is available for other priorities.

California’s *comparability* to other states is less favorable, but has improved significantly in recent years. The State Treasurer’s 2022 Debt Affordability Report (DAR), issued last October, contains the following information:

State	Moody’s/ S&P/ Fitch(a)	Debt to personal income(b)	Debt per capita(b)	Debt as a % of state GDP(b)(c)
Texas	Aaa/AAA/AAA	1.1%	\$682	1%
North Carolina	Aaa/AAA/AAA	1.2%	\$686	1.1%
Florida	Aaa/AA/AAA	1.2%	\$756	1.3%
Michigan	Aa1/AA/AA+	1.5%	\$833	1.5%
Georgia	Aaa/AAA/AAA	2%	\$1,087	1.7%
Pennsylvania	Aa3/A+/AA+	2.5%	\$1,616	2.5%
Ohio	Aa1/AA+/AA-	3%	\$1,718	2.7%

¹ Robert Wassmer and Ronald Fisher “Debt Burdens of California State and Local Governments: Past, Present and Future.” As requested and supported by the California Debt and Investment Advisory Commission. July 2011.

California	Aa2/AA-/AA	3.2%	\$2,458	2.9%
Illinois	Baa1BBB+ /BBB+	4.4%	\$2,958	4%
New York	Aa1/AA+/AA+	5.1%	\$3,871	4.1%
Moody’s Median All States		2.1%	\$1,179	2.1%
Median For The 10 Most Populous States (a) Moody’s, Standard & Poor’s, and Fitch Ratings as of August, 2022		2.25%	\$1,352	2.1%
(b) Figures as reported by Moody’s in its 2022 State Debt Medians Report based on 2021 fiscal data, except for California, which reflect fiscal 2020.				
(c) State GDP numbers have a one-year lag.				

Determining *optimality*, or whether government is investing in the quantity and quality of public capital desired by residents, and financing the appropriate share with debt, is more difficult. LAO recommends that the Legislature consider the Governor’s annual Five-Year Infrastructure Plan as a starting point to developing a coordinated approach to infrastructure funding, and establish a committee to focus on statewide infrastructure.

4. The good news. Ratings issued from the three major credit rating agencies often inform investors and the public regarding the state’s creditworthiness, and assess any investment risk from investing in California GO bonds. Rating agencies Fitch, Standard and Poor’s, and Moody’s have praised California’s deep and diverse economy, recent balanced and on-time budgets, reduced budget deficits, and improved reserves and liquidity. However, the agencies also state that California faces challenges: a highly volatile revenue system, constitutionally-imposed governance restrictions, high housing costs that threaten economic growth, and minimal prefunding of retiree health care benefits, among others. Once considered an outlier, the “credit spread” between California bonds and other states as measured by the benchmark 30-year Municipal Market Data Index has tightened significantly in the last ten years; credit spreads represent the difference in yield between two bonds of similar maturity but different credit quality. The DAR notes that California’s credit spread has declined from a high of more than 150 basis points at the end of 2009 to as narrow as four basis points in September 2018, and was 24 points in June 2022.

5. The bad news. California has a distinct problem: of the \$156.4 billion in GO bonds that voters have authorized, around \$27 billion hasn't been issued yet. Among others, the state hasn't issued more than \$5.2 billion from the Stem Cell Research Bond approved in 2020, \$5 billion from the 2014 water bond, and \$4.6 billion to fund high speed rail. According to the Treasurer, the state has issued an average of \$7.9 billion of GO bonds annually. The Treasurer expects similar issuance amounts in future years. While the state has made great progress reducing the amount of authorized, unissued bonds in recent years, many bond-funded projects have not yet received required approvals. Market appetite and debt service payments limit the amount of GO bonds the state can sell. As a result, projects with voter-approved bond authority, as well as any new GO bond-funded projects, may have to wait to receive the necessary cash.

6. Rates. In March 2020, in response to the COVID-19 pandemic, the Federal Open Markets Committee cut the federal funds rate twice, setting the range between zero and 0.25%. On year later, in response to rising inflation, the Committee began a series of rate increases, with a current range of 4.75% to 5%. Changes in the federal funds rates has broad effects on the economy, including for states when issuing GO bonds; higher interest rates mean that borrowers pay more when borrowing the same amount of debt, all else equal. The conflict in Ukraine, the lingering impacts from the COVID-19 pandemic, and other trends have caused market fluctuations in interest rates for governments issuing tax-exempt debt. According to the DAR, until October 2021, tax-exempt rates lagged and remained low through the end of December; however, starting in January 2022, tax-exempt interest rates began to rise sharply, snapped back briefly in May and early June, but those gains reversed very quickly. Data from the state's last four bond sales demonstrates these fluctuations:

- Bond sales between March 2020 and 2021 generally had all-in interest costs just above 2%, and yields between 0.06% and 2.58% depending on duration.
- The March 2022 sale of \$2.3 billion in bonds had an all-in true interest cost of 3.09%, and yields ranging from .94% to 3.29%.
- The September 2022 sale of \$2.3 billion in bonds had an all-in true interest cost of 3.93%, and yields ranging from 2.34% to 4.3%.
- The April 2023 sale of \$2.6 billion in bonds had an all-in true interest cost of 3.63%, and yields ranging between 2.21% to 3.98%.

Given recent fluctuations in interest rates, it's unclear what the true cost to the state's General Fund will be when currently authorized, or any newly approved, bonds are sold. For example, a \$15.5 billion bond with a 30 year maturity issued at a 2% interest rate would have a total debt service of \$20.7 billion, or \$692 million per year. The same bond issued at a 4% interest rate has a total debt service of \$26.9 billion, or \$896 million per year, assuming the same inflation rate and yield.

7. Time for reform? Prior to the passage of Proposition 51 and amid concerns about the complexity and structure of the SFP, former Governor Brown called for the state to establish a new school facilities program. The 2016-17 Governor's Budget stated the following:

“The existing school facilities program is overly complex, creating costs for school districts to navigate a process that can involve as many as ten different state agencies. The program creates an incentive for districts to build new schools when they already have the capacity to absorb enrollment growth, and allocates funding on a first-come, first-served basis, giving districts with dedicated facilities personnel a substantial

advantage. Finally, the existing program does not give districts enough flexibility to design school facility plans to reflect local needs. The inherent problems with the current program, along with billions of dollars in long-term liabilities created by the issuance of state debt, is no longer sustainable.”

8. Future attractions. In addition to SB 28’s proposed \$15.5 billion for school facilities, three other Senate Bills seek to place authorizations for GO bonds before voters:

- SB 638 (Eggman) proposes \$6 billion for flood control projects. The Committee on Natural Resources approved the bill by a vote of 9 to 0 on March 28th, and it will be heard by the Governance & Finance Committee at its April 19th hearing.
- SB 834 (Portantino) proposes \$25 billion for home ownership and construction. The measure is set for hearing in the Committee on Housing at its April 18th hearing. If approved, the Governance & Finance Committee will consider the measure at its April 26th hearing.
- SB 867 (Allen) proposes \$4.1 billion for drought, wildfire, and other climate resilience projects. The measure is set for hearing in the Governance and Finance Committee for April 26th.

9. Incoming! The Committee on Education approved SB 28 by a vote of 7 to 0 on March 28th. The Governance and Finance Committee is hearing the bill as the Committee of second reference.

10. Hello again. SB 28 is almost identical to SB 22 (Glazer, 2022), which was approved by the Senate by a vote of 31 to 5 in June 2021. The measure did not advance from the Assembly Education Committee.

Support and Opposition (4/14/23)

Support:

A Voice for Choice Advocacy
 California State University, Office of The Chancellor
 Charles R. Drew University of Medicine and Science
 Citrus College
 Kedren Health
 Los Angeles Unified School District
 Mt. San Antonio College
 North Orange County Community College District
 Office of The Riverside County Superintendent of Schools
 Riverside County Public K-12 School District Superintendents
 South Central Family Health Center
 Southside Coalition of Community Health Centers
 St. Johns Well Child & Family Health Center
 T.h.e. (to Help Everyone) Health and Wellness Centers
 University of California
 Watts Labor Community Action Committee

Opposition:

California Taxpayers Association

Plumbing-heating-cooling Contractors Association of California
Western Electrical Contractors Association

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