1986

GREENE-HUGHES SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1986

53 Greene-Hughes School Building Lease-Purchase Bond Law of 1986

Official Title and Summary Prepared by the Attorney General

GREENE-HUGHES SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1986. This act provides for a bond issue of eight hundred million dollars ($800,000,000) to provide capital outlay for construction or improvement of public schools to be sold at a rate not to exceed four hundred million dollars ($400,000,000) per year.

Final Vote Cast by the Legislature on AB 4245 (Proposition 53)

Assembly:		Senate:	
Ayes	70	Ayes	29
Noes	1	Noes	0

Analysis by the Legislative Analyst

Background

Since the passage of Proposition 13 in 1978, the state has provided most of the money used by local public school districts to construct, reconstruct, or modernize school facilities. Under the current state aid program, school districts may be required to contribute up to 10 percent of the cost of each project from local funds.

Proposition 46 on the June 1986 ballot restored to school districts the ability to issue school construction bonds and levy a property tax increase (subject to a two-thirds voter approval), in order to finance school facilities. This ability had been eliminated by Proposition 13.

School Facilities Funding Needs. The total amount of additional school facilities needed to meet current enrollment in the state is unknown. As of June 1, 1986, however, applications submitted by school districts for state funding of new school construction projects totaled approximately $1.3 billion. In addition, applications for state funding of reconstruction or rehabilitation of school facilities totaled approximately $991 million.

An estimated $406 million is available under current law from *state* sources in 1986–87 to fund these requests. This amount includes $130 million in bond funds from Proposition 26 of 1984, $200 million in state tidelands oil revenues which were appropriated but not spent, and $76 million in federal funds and revenues from other sources.

Since June 1986 school districts have been able to raise funding *locally* through issuance of school construction bonds under the authority granted by Proposition 46. The amount of money school districts may be able to generate through this mechanism is not known.

Proposal

This measure would authorize the state to sell $800 million of state general obligation bonds in order to provide funds for the construction, reconstruction, or modernization of elementary and secondary school facilities. General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. The state's General Fund would be used to pay the principal and interest costs on these bonds. General Fund revenues come primarily from the state corporate and personal income taxes and the state sales tax.

At least $400 million of the bond money would have to be used for the construction of *new* school facilities [illegible] more than $360 million of the funds raised from the [illegible] sale could be used for the reconstruction or modernization of *existing* school facilities. Up to $40 million of the bond sale proceeds could be used to buy and install air-conditioning equipment and insulation materials for eligible school districts with year-round school programs.

Fiscal Effect

Paying Off the Bonds. For these types of bonds, the state typically would make principal and interest payments over a period of up to 20 years from the state's General Fund. The average payment would be about $66 million each year if $400 million in bonds were sold in both 1986–87 and 1987–88 at an interest rate of 7 percent.

Borrowing Costs for Other Bonds. By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more under other bond programs. These costs cannot be estimated.

State Revenues. The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California taxpayers buy these bonds instead of making taxable investments, the state would collect less taxes. This loss of revenue cannot be estimated.

Vote November 4, 1986.

This law proposed by Assembly Bill 4245 (Statutes of 1986, Chapter 423) is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law adds sections to the Education Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Chapter 21.7 (commencing with Section 17696) is added to Part 10 of the Education Code, to read:

CHAPTER 21.7. GREENE-HUGHES SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1986

17696. This chapter may be cited as the Greene-Hughes School Building Lease-Purchase Bond Law of 1986.

17696.1. The State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code) is adopted for the purpose of the issuance, sale, and repayment of, and otherwise providing with respect to, the bonds authorized to be issued by this chapter, and the provisions of that law are included in this chapter as though set out in full in this chapter. All references in this chapter to "herein" shall be deemed to refer both to this chapter and that law.

17696.15. As used in this chapter, and for the purposes of this chapter as used in the State General Obligation Bond Law, the following words shall have the following meanings:

(a) "Committee" means the State School Building Finance Committee created by Section 15909.

(b) "Board" means the State Allocation Board.

(c) "Fund" means the State School Building Lease-Purchase Fund.

17696.2. For the purpose of creating a fund to provide aid to school districts of the state in accordance with the provisions of the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (Chapter 22 (commencing with Section 17700)), and of all acts amendatory thereof and supplementary thereto, and to provide funds to repay any money advanced or loaned to the State School Building Lease-Purchase Fund under any act of the Legislature, together with interest provided for in that act, and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code, the committee shall be and is hereby authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of eight hundred million dollars ($800,000,000) in the manner provided herein, but not in excess thereof.

17696.25. All bonds herein authorized, which shall have been duly sold and delivered as herein provided, shall constitute valid and legally binding general obligations of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal and interest thereof.

There shall be collected annually in the same manner and at the same time as other state revenue is collected such a sum, in addition to the ordinary revenues of the state, as shall be required to pay the principal and interest on the bonds as herein provided, and it is hereby made the duty of all officers charged by law with any duty in regard to the collection of the revenue, to do and perform each and every act which shall be necessary to collect the additional sum.

On the several dates of maturity of the principal and interest in each fiscal year, there shall be transferred to the General Fund in the State Treasury, all of the money in the fund exclusive of funds transferred pursuant to subdivision (f) of Section 6217 of the Public Resources Code, not in excess of the principal of and interest on the bonds then due and payable, except as herein provided for the prior redemption of the bonds, and, in the event the money so returned on the dates of maturity is less than the principal and interest then due and payable, then the balance remaining unpaid shall be returned to the General Fund in the State Treasury out of the fund as soon thereafter as it shall become available.

17696.3. All money deposited in the fund under Section 17732 and pursuant to Part 2 (commencing with Section 16300) of Division 4 of Title 2 of the Government Code shall be available only for transfer to the General Fund, as provided in Section 17696.25. When transferred to the General Fund, the money shall be applied as a reimbursement of the General Fund on account of principal and interest due and payable or paid from the General Fund on the earliest issue of school building bonds for which the General Fund has not been fully reimbursed by the transfer of funds.

17696.35. There is hereby appropriated from the General Fund in the State Treasury for the purpose of this chapter, an amount that will equal the following:

(a) The sum annually as will be necessary to pay the principal of and the interest on the bonds issued and sold pursuant to the provisions of this chapter, as the principal and interest become due and payable.

(b) The sum as is necessary to carry out Section 17696.4, which sum is appropriated without regard to fiscal years.

17696.4. For the purposes of carrying out the provisions of this chapter, the Director of Finance may, by executive order, authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. Any amounts withdrawn shall be deposited in the fund to be allocated by the board in accordance with this chapter. Any moneys made available under this section to the board shall be returned by the board to the General Fund for moneys received from the sale of bonds sold for the purpose of carrying out this chapter.

17696.5. Upon request of the board from time to time, supported by a statement of the apportionments made and to be made under Chapter 22 (commencing with Section 17700), the committee shall determine whether or not it is necessary or desirable to issue any bonds authorized under this chapter in order to fund the apportionments, and, if so, the amount of bonds to be issued and sold. Four hundred million dollars ($400,000,000) shall be available for apportionment on December 1, 1986, and four hundred million dollars ($400,000,000) shall become available for apportionment on December 1, 1987, such that a total of eight hundred million dollars ($800,000,000) has become available for apportionment. The Treasurer shall sell the bonds so determined at such different times as necessary to service expenditures required by the apportionments.

17696.6. In computing the net interest cost under Section 16754 of the Government Code, interest shall be computed from the date of the bonds or the last preceding interest payment date, whichever is latest, to the respec-

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Argument in Favor of Proposition 53

In recent years, California has made great strides in improving its elementary and secondary schools. Test scores are rising, students are spending more time in school, and staff morale is on the upswing.

But California's school population is growing again. In many areas of the state, classrooms are badly overcrowded. And over the next five years we will need to provide classrooms for nearly 450,000 new students. To keep up the momentum for improvement in the schools, our children need adequate classrooms, science laboratories, and libraries that a more demanding curriculum requires. That is why we urge you to vote YES on Proposition 53.

The total need for new school construction, school remodeling and replacement needs is estimated to be over $4 billion by 1990.

Your YES vote on Proposition 53 will help provide new schools in growing areas and badly needed repairs to older schools. Schoolchildren in every part of California will benefit from your YES vote. Using bonds to pay for schools is a safe and financially sound California tradition.

Outstanding schools are vital to California's economic health. To continue our progress for educational excellence, let's assure that every California child has a safe, uncrowded classroom. Join us in voting YES on Proposition 53.

GEORGE DEUKMEJIAN
Governor

BILL HONIG
Superintendent of Public Instruction

TERESA P. HUGHES
Member of the Assembly, 47th District

Rebuttal to Argument in Favor of Proposition 53

To receive an education in California is a privilege. The educational system is a MOTHERHOOD–APPLE PIE issue. The fisal year 1986–87 budget provides $21 billion for education, or 55 percent of the General Fund. If Legislature-approved bond issues for education in this ballot pamphlet are passed by the voters, the total for education would take 58 percent of the budget, or over $22 billion. This budget pie would be reduced to $15 billion, or 42 percent, for vital necessities: law enforcement, correctional facilities, welfare, and costs of government.

PROPOSITION 53 will place control of the funds for local school districts in a seven-member Sacramento board. In effect, LOCAL DISTRICTS LOSE CONTROL.

The largest school district in California, Los Angeles, has leased, closed and sold schools. Others are used for administrative purposes. This problem is NOT UNIQUE only to Los Angeles, but exists in other districts. School districts should be responsible only to constituents in their districts. Constituents must retain LOCAL CONTROL. VOTE NO ON PROPOSITION 53.

By state law, LOTTERY FUND proceeds may n utilized for NEW SCHOOLS. This law must be chan..d. To operate schools year-round is not the remedy. Motherhooding parents and all taxpayers realize that $15 billion, or 42 percent of the budget expenditures, is not adequate to provide safety or vital services for California citizens.

The Bond Act provides for year-round schools. Don't jeopardize fiscal stability by raising taxes. VOTE NO ON PROPOSITION 53.

ELLISON BLOODGOOD
President, United Voters League

If you have any questions about voting call your county clerk or registrar of voters.

Argument Against Proposition 53

SCHOOLS — $800 million bond issue — November 4, 1986, General Election. For the immediate past decade, and since 1977, California State Budgets have exceeded a total of $225,000,000,000. Of those billions of dollars, over 50% has gone to the mandatory state education system—or—112.5 billion dollars.

As voters and taxpayers, let us join in dialogue with the authors of the $800 million school bond measure that would provide $360 million to remodel existing school buildings and $440 million for new construction of buildings. A seven-member allocation board would distribute the funds to school districts. Certainly the money has been utilized to pay teacher salaries, pension plan payments, insurance, and the general maintenance of the educational system, while the overall excellence of students has been declining. Obviously, higher standards from students must be demanded, and until that is forthcoming from school administrators, all the money from future state budgets will be of no avail. $800 million is only the tip of the financial iceberg.

During past fiscal years, the educational system was financed from current revenues—on a "pay as you go" basis—and the school system must return to that policy. Why has new school construction faltered? Poor planning of the existing fund allocations for new classrooms. At this date, more than $8 billion in general obligation bonds—taxpayer money—is outstanding, plus billions more in local bonded indebtedness. A financial burden is an albatross on California taxpayers' backs. California legislators have a fiduciary responsibility to California taxpayers.

California State Lottery funds for schools—how are the proceeds being utilized? Ask questions. Do not accept the thesis that new school funds or bonds are an absolute necessity to preserve the system. The taxpayers' ability to make intelligent decisions and exercise control on government spending are the choices we face. Join the dialogue and VOTE NO ON PROPOSITION 53.

ELLISON BLOODGOOD
President, United Voters League

Rebuttal to Argument Against Proposition 53

The opposition argument is based on misinformation about the way California's schools operate. First, opponents argue that higher standards must be demanded of students. We concur, and, since 1983 higher standards, more time in school, and more homework have been key elements of the current education improvement. Help continue improvement. Vote YES on Proposition 53.

Second, opponents imply that in the past, school construction has been paid for out of current revenues. This is simply not true. The majority of school construction projects have been financed through the fair and prudent method of general obligation bonds.

Using bonds to pay for school construction is fair and prudent because it allows the cost of school construction to be shared equitably by today's and tomorrow's taxpayers. Why should today's taxpayers fund the full cost of schools that will be used for the next 50 years? Bonds are a method preferred by private industry to fund their capital outlay projects. We believe government should use the same proven, efficient mechanisms private businesses use to pay their bills. Vote YES on Proposition 53.

Finally, opponents imply that lottery funds can and should be used for school construction. The opponents may not understand that the voters prohibited the use of lottery funds for school construction when they approved the lottery initiative in 1984.

Using bonds to build schools for the next generation of Californians is a fair deal for taxpayers. Vote YES on Proposition 53.

BILL HONIG
Superintendent of Public Instruction

TERESA P. HUGHES
Member of the Assembly, 47th District

Polls are open from 7 a.m. until 8 p.m.

Proposition 53 Text of Proposed Law

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tive maturity dates of the bonds then offered for sale at the coupon rate or rates specified in the bid, the computation to be made on a 360-day-year basis.

17696.7. The committee may authorize the Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the Treasurer.

17696.8. All proceeds from the sale of the bonds herein authorized deposited in the fund, as provided in Section 16757 of the Government Code, except those derived from premium and accrued interest, shall be available for the purpose herein provided, but shall not be available for transfer to the General Fund pursuant to Section 17695.25 to pay principal and interest on bonds.

17696.9. With respect to the proceeds of bonds authorized by this chapter, all provisions of Chapter 22 (commencing with Section 17700) shall apply.

17696.95. Out of the first money realized from the sale of bonds under this chapter, there shall be repaid any moneys advanced or loaned to the State School Bu[illegible] Lease-Purchase Fund under any act of the Legisla[illegible] together with interest provided for in that act.

17696.96. Not more than three hundred sixty million dollars ($360,000,000) of the moneys authorized by this chapter shall be reserved for the reconstruction or modernization of facilities within the meaning of Chapter 22 (commencing with Section 17700).

17696.98. An amount not to exceed 5 percent of the proceeds from the sale of bonds pursuant to this chapter may be used to purchase and install air-conditioning equipment and insulation materials pursuant to Section 17717.6.

Proposition 55 Text of Proposed Law

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the committee may act for the committee.

13895.7. There is in the State Treasury the California Safe Drinking Water Fund, which fund is hereby created.

13895.8. The committee may create a debt or debts, liability or liabilities, of the State of California, in an aggregate amount of one hundred million dollars ($100,000,000) in the manner provided in this chapter. The debt or debts, liability or liabilities, shall be created for the purpose of providing the money to be used for the objects and works specified in Section 13895.9.

13895.9. (a) An aggregate amount of one hundred million dollars ($100,000,000) of the moneys in the fund are hereby continuously appropriated and shall be used for the purposes set forth in this section and Section 13898.

(b) The department may enter into contracts with suppliers having authority to construct, operate, and maintain domestic water systems, for loans to suppliers to aid in the construction of projects which will enable the supplier to meet, at a minimum, safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

(c) Any contract entered into pursuant to this section may include provisions as agreed by the parties thereto, and the contract shall include, in substance, all of the following provisions:

(1) An estimate of the reasonable cost of the project.

(2) An agreement by the department to loan to the supplier, during the progress of construction or following completion of construction as agreed by the parties, an amount which equals the portion of construction costs found by the department to be eligible for a state loan.

(3) An agreement by the supplier to repay the state over a period not to exceed 50 years, (A) the amount of the loan, (B) the administrative fee as described in Section 13897, and (C) interest on the principal, which is the amount of the loan plus the administrative fee.

(4) An agreement by the supplier, (A) to proceed expeditiously with, and complete, the project, (B) to commence operation of the project upon completion thereof, and to properly operate and maintain the project in accordance with the applicable provisions of law, (C) to apply for, and make reasonable efforts to secure, federal assistance for the project, (D) to secure approval of the department and of the State Department of Health Services before applying for federal assistance in order to maximize and best utilize the amounts of that assistance available, and (E) to provide for payment of the supplier's share of the cost of the project, if any.

(d) Bond proceeds may be used for a grant program in accordance with this chapter, with grants provided to suppliers that are political subdivisions of the state that are otherwise unable to meet minimum safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code. The total amount of grants made pursuant to this chapter shall not exceed twenty-five million dollars ($25,000,000).

(e) Notwithstanding any other provision, the proceeds of any bonds authorized to be issued under the California Safe Drinking Water Bond Law of 1976 (Chapter 10.5 (commencing with Section 13850)), and the California Safe Drinking Water Bond Law of 1984 (Chapter [illegible] (commencing with Section 13810)) which are unis[illegible]d and uncommitted on the effective date of this chapter, shall be used for loans and grants to suppliers in accordance with the terms, conditions, and purposes of this chapter. Loans made after November 6, 1984, pursuant to Chapter 10.2 (commencing with Section 13810) shall carry an interest rate calculated as prescribed in Section 13897.3.

13896. (a) The department may make state grants to suppliers that are political subdivisions of the state, from moneys in the fund available for that purpose pursuant to subdivision (d) of Section 13895.9, to aid in the construction of projects which will enable the public agency to meet, at a minimum, safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code. A grant may be made by the department only upon the specific approval of the Legislature, by an act enacted after the receipt of a report filed pursuant to Section 13896.2

(b) Any contract for a grant entered into pursuant to this chapter may include provisions as agreed by the parties thereto, and the contract shall include, in substance, all of the following provisions:

(1) An estimate of the reasonable cost of the project.

(2) An agreement by the department to grant to the public agency, during the progress of construction or following completion of construction as agreed by the parties, an amount which equals the portion of construction costs found by the department to be eligible for a state grant.

(3) An agreement by the public agency, (A) to pro[illegible] expeditiously with, and complete, the project, (B) to commence operation of the project upon completion thereof, and to properly operate and maintain the project in ac-