



PETE RATES THE PROPOSITIONS

Sensible opinions on the California ballot propositions since 1980 by Pete Stahl

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March 2020

Pete recommends:

13 YES School and College Construction Bonds *My Semi-Biennial Lecture on Bonds*

Proposition 13: School and College Construction Bonds – YES

SUMMARY: Authorizes \$15 billion in bonds for renovation and construction of public school and college facilities throughout the state. This is needed because local property taxes alone can't cover the expense. Money is to be distributed based on health/safety and district need, rather than first-come, first-served as previous bonds did: a major improvement. The measure temporarily reduces fees that districts can levy on new apartment construction, especially near transit hubs; this is kind of a non-sequitur. But, all in all, this proposition is a smart package.

See [My Semi-biennial Lecture on Bonds](#), at the end of this document, for my opinion of bonds in general.

DETAILS: This is not your father's Prop 13.

That one, the famous Prop 13 of 1978 (has it really been 42 years?), slashed property taxes, resulting in drastic revenue reductions—[one-third](#) overall—for public school and community college districts. Suddenly, districts could [no longer afford](#) costly construction and renovation of their buildings. The [state now supplies](#) about half of the funding for this, in the form of bonds approved every few years by voters.

And **that** is what's on your ballot now. This year's Prop 13 asks us to approve \$15 billion in bonds to fund construction and renovation of school, college, and university buildings across the state. The money raised will be used to repair and upgrade aging K-12 school buildings (\$5.2 billion), construct new K-12 facilities (\$2.8 billion), and build and renovate facilities at community college, Cal State University, and University of California campuses (\$2 billion each). Smaller amounts are earmarked for facilities at charter and vocational schools.

This is not a pure giveaway by the state. Local districts will have to “match” funding by paying at least 45% of the cost for new buildings and 35% for renovation projects; wealthier districts 5% more. To raise matching funds, many districts issue their own bonds; your ballot might even have such a local bond (mine has *two*). The state currently

imposes limits on how much districts can borrow. Prop 13 would increase these limits by 60%, allowing districts to borrow more to pay for capital projects.

Even with the higher debt ceiling, smaller districts in areas with lower property values may still struggle to raise enough matching money. Prop 13 allows any district unable to raise \$15 million (previous threshold: \$5 million) to apply for additional state funding. Prop 13 prioritizes funding for poorer districts (see below), so this will mean faster repair, renovation and new construction in districts where the need is most desperate.

If you paid close attention four years ago, you may have noticed that the most recent school construction bond, [Prop 51](#) (Nov. 2016), was placed on the ballot by petition, not the Legislature, due to Gov. Jerry Brown's opposition. The governor cited **serious inequities** in the allocation of funding from Prop 51 and its predecessors, which had been identified in a [2012 report](#) from the [Center for Cities and Schools](#) at UC Berkeley. In a nutshell, funding was doled out on a “first-come, first-served” basis, **favoring large and wealthy districts** over smaller, poorer ones, and ignoring considerations of urgency, health and safety.

I am happy to report that Prop 13 will fix this problem. Under Prop 13, applications for funding will be reviewed **as a batch**, not one-by-one as they are received. Highest priority will be given to safety and health projects such as reinforcing buildings for seismic safety, removing mold and asbestos, and providing space for nurses and mental health counselors. Second-highest priority would be given to districts unable to raise \$15 million locally, and to projects that eliminate lead from drinking water.

Under Prop 13, proposals from universities would similarly have to prioritize life safety issues. In addition, campuses would be required to develop five-year plans to expand affordable housing options for their students, and prioritize projects advancing that goal.

Prop 13 is not all sunshine and rainbows; it does contain provisions that appear **tangential**, at best, to its main purpose. For example, Prop 13 directs the state to give

preference to projects that use unionized construction labor. Now, I happen to support labor unions, but upgrading educational facilities and promoting union work seem like separate issues.

In addition, Prop 13 temporarily reduces certain **fees on developers** which school districts can levy to cover the costs of any resulting increase in student population. For example, today, if a developer builds homes for hundreds of families, the school district can impose developer fees to pay for a new school. It's very sensible. Under Prop 13, developer fees would be **reduced 20%** on multi-family apartments, and **eliminated completely** if the development is located within one-half mile of a transit hub. These provisions would expire in 2026.

This obviously has **nothing to do** with helping districts pay for school construction. In fact, reducing developer fees will make it **harder** for districts to raise the money they need. [Some even argue](#) that this provision, combined with the increased local debt ceiling outlined above, is a **blatant ploy** to shift the burden of school expansion from developers to taxpayers. So what's going on?

My Semi-Biennial Lecture on Bonds

When California wants to finance a large project, it asks the voters for permission to take out a loan. Prop 13 on this ballot is just such a request. If voters approve, the state may take out a loan for the project by selling general obligation bonds, which are paid back with interest over 30 or 40 years. The bond payments come out of the state's main budget, the General Fund. So when we vote on bond measures, we are really voting on whether the project in question ought to be added to the state's budget.

"Wait a minute!" I hear you cry. "What about those interest payments? Won't we end up paying more for interest than for the bonds themselves?" This may once have been so, but with today's low interest rates, each dollar of bond money will cost [only 40 cents](#) in interest, accounting for inflation. (See details on p. 18 of your [ballot pamphlet](#).)

"Okay," you admit, "but loans are still more expensive than pay-as-you-go." This is true. Still, loans are the only way to buy a house, or a car, or anything else that you need **immediately** but can't pay for yet. It's worth paying the premium of interest to get the funding **now**.

"Well and good," you continue. "But there are **\$15 billion** in bonds on this ballot. Isn't that too much to borrow?" For you, yes, but the State of California can handle it. Bond payments today amount to [less than 5%](#) (and shrinking) of the General Fund, down from a high

Politics is going on. Remember that Prop 13, weighing in at \$15 billion, has attracted a lot of attention. Many interest groups influenced [its shape](#): labor unions, developers, housing advocates. In return, these groups are actively promoting its passage at the polls. Supporters of Prop 13 have donated [over \\$10 million](#) to the campaign; [chief among them](#) have been construction management firms, architects, teachers' and construction workers' unions, and the Democratic Party.

I don't pretend this is pretty. But it's important to keep it in perspective. Prop 13 will address the urgent need to repair and upgrade public school facilities, significantly improving safety and the educational environment for students across the state. It will correct a serious flaw in the allocation process, and force universities to address student housing. Yes, there are concessions to powerful interests: that's what happens in the [Legislature](#). But I think we can live with them. You must vote "yes" or "no" on this measure; you cannot rewrite the bill to your liking. Taken as a whole, Prop 13 will be greatly beneficial. It deserves your support.

of nearly 6% ten years ago. Prop 13 won't appreciably increase that figure. Accounting for Prop 13 and all bonds previously authorized by voters, the Legislative Analyst predicts the debt ratio may rise slightly until 2022, then continue its decline.

Prop 13 will fund long-lived, tangible acquisitions, such as school buildings and college dormitories. It's sensible to make extended payments for things that will be used far into the future.

Remember, too, that California's population continues to [grow by millions](#) every decade. Borrowing makes particular sense if you know your income will go up in the future. As the state grows, over time the General Fund will grow too.

There is one last reason to vote for a bond measure. In addition to being formal requests for permission to take out loans, bond measures are also looked upon as referenda on the merits of the proposed projects. If a bond measure fails, legislators are likely to believe that the public feels the project is not worthy of receiving state funding. By voting no, you may have meant, "Yes on the project but no on the bonds," but your message to Sacramento will read, "No on the project." So if you vote down a bond measure just because you don't like bonds, you may well have killed forever the project the bonds were to have funded.

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