CDIAC

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued

In June 1986, California voters approved Proposition 46, a constitutional amendment that restored the authority to issue general obligation bonds to counties, cities and school districts. Since then, general obligation bonds have become the primary financing tool used by California school and community college districts to construct or improve school facilities.

General obligation bonds, also called GO bonds, are backed by the full faith and credit of the issuing agency, are paid for by increasing local property taxes above the limit imposed by Proposition 13, and require two-thirds voter approval to be issued. The agency issuing a GO bond is authorized to levy (via the county treasurer) an ad valorem property tax at the rate necessary to repay the principal and interest of the bonds. The total amount of outstanding city, county, or school district debt was limited by Proposition 46 and is based on the assessed valuation (AV) of the property within their boundaries.[1]

In November 2000, voters in California approved Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act," amending portions of the California Constitution to provide school districts the authority to issue a GO bond with just 55 percent voter approval. A school district may decide to seek approval under Proposition 46 or Proposition 39, but under Proposition 39 an elementary or high school district also agrees to limit the total of all bonds issued under any single bond measure to an amount that requires taxes of no more than $30 per year per $100,000 of district AV to pay the principal and interest on the bonds. For unified school districts, the limit is $60, and for community college districts it is $25.

The vast majority of the California school and community college bond issuance authority is granted by voters through elections under Proposition 39 and, as a result, districts are pledging to issue only the debt that can be serviced within their tax rate limitations.[2] Simply having the bond authority is not enough justification for a school district to issue the bonds. Districts must establish that they will generate the tax revenues, given the limits, required to service the debt as long as it is outstanding.

Generally, the amount of bond authority sought in an election, is not based on the debt that can be serviced from the tax revenues generated from the district immediately, but from tax revenues projected over time as the value of property in the district increases. Given the enormous and unexpected swings in property values and property tax receipts before, during, and after the Great Recession, the California Debt and Investment Advisory Commission (CDIAC) undertook research to determine the amount of GO bond authority that had been granted by voters to California school and community college districts, but had not been issued. The research concluded that of the over $90 billion of GO bond authority approved by voters since November 2002, $37.5 billion has not been issued (Figure 1, next page).

CDIAC extracted a data set of all approved school and community college GO bond elections from November 2002 through November 2013 – 681 elections total – from its database of California bond and tax elections which has been compiled by CDIAC since 1986.[3] This election data was cross referenced with all school and community college district GO debt issuance that was reported to CDIAC under Government Code 8855(j) from January 2003 to November 19, 2013 and stored in CDIAC's California Debt Issuance Database – approximately $95 billion in 2,800 issues.[4] Every debt issue in the data set was reviewed by a CDIAC researcher and either coded to an approved election authority from the election dataset or de-

[1] The GO debt limit for unified school districts and community college districts is 2.5percent of AV. The limit is half as much for elementary and high school districts (1.25 percent of AV).

[2] Of the 681 K-14 bond elections approved by voters between November 2002 and November 2013, 667 (97.9 percent) were approved under Proposition 39.

[3] The election data is obtained through internet search or direct contact with county clerk/voter registrar offices. Among the internet sources used by CDIAC are the websites of the League of Women Voters, the County Clerk/Voter Registrar Offices, the Secretary of State, Ballotpedia, and local newspapers.

[4] The GO bond dataset included refundings and bond anticipation notes (BANs). Refundings were counted against the district's election authority if they refunded a non-GO debt (e.g. certificates of participation, lease obligations), otherwise not. BANs were counted against the election authority only if the GO bond planned to repay the BAN had not yet been issued. In this case, using the BAN principal at issue may understate the amount of authority used when the BAN is taken out by the GO bond because it does not include accreted interest, a common BAN feature.

termined to not reduce election authority and not assigned to an election. CDIAC staff utilized official statements from CDIAC's internal bond document database and the Electronic Municipal Market Access (EMMA) system operated by the Municipal Securities Rulemaking Board (MSRB) to verify the proper coding of the bond issue when the CDIAC data did not lead to a conclusive determination.

Under Proposition 39, bond elections may only be held on the same day as statewide general, primary, or special elections, or at regularly scheduled local elections. This causes most school bond elections to be held in even numbered years (over 90% in this selected election data set).

In addition to the availability of tax revenue to service the debt, other factors affect the timing of the issuance of school district GO bonds including the facility construction schedule, bond market factors, and availability of matching funds under the State Facilities Program, to name a few. Resultantly, districts issue their bonds for as many as five to ten years following the election depending on the complexity and combination of factors. The data reveals an expected increase in the percentage of unissued authority as elections become more recent.

The data also reveals a marked jump in the percentage of the unissued authority post 2007 (Figure 2). California experienced successive years of property value declines beginning in 2007 and has only recently seen property values begin to regain pre-Recession levels. Many districts realized that they could issue at the rate they had planned when they put the bond authorization on the ballot. Falling property values, likely, could not support the increasing tax revenue that was required to service additional debt. CDIAC researchers also noticed that it was not uncommon for districts to return to the voters to receive additional authority before all of the prior authority was issued. Perhaps these districts were financing entirely different projects, but they may have been seeking an additional tax rate allocation to raise the tax revenues required for a new bond issue that would get their facilities programs back on schedule.

This article considers the volume of authorized but unissued school and community college district GO bonds. Questions remain whether this outstanding authority equates to the capacity to build or remodel schools in the near future.

FIGURE 1

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT
VOTER APPROVED GO AUTHORITY VS. ISSUANCE, (REPORTED AS OF 11/19/2013)

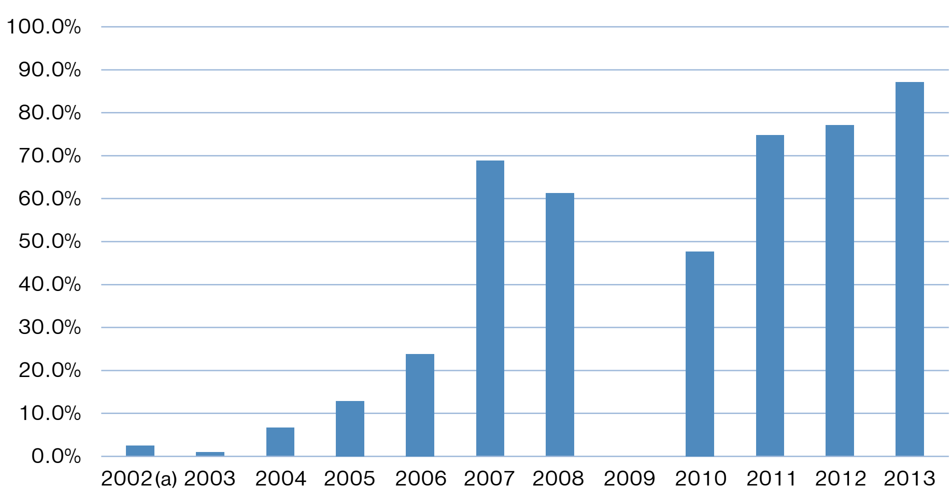
ELECTION YEAR	NUMBER OF APPROVED ELECTIONS	VOTER APPROVED G.O. AUTHORITY (MILLIONS)	G.O. AUTHORITY ISSUED (MILLIONS)	UNISSUED G.O. AUTHORITY (MILLIONS)	PERCENT UNISSUED
2002 (a)	83	$9,451	$9,210	$241	2.6%
2003	11	1,553	1,538	15	1.0
2004	112	11,561	10,792	769	6.7
2005	35	6,294	5,485	809	12.9
2006	94	10,319	7,861	2,458	23.8
2007	11	1,253	391	863	68.8
2008	142	28,001	10,844	17,157	61.3
2009	2	69	69	0	0.0
2010	62	5,055	2,648	2,407	47.6
2011	7	981	247	734	74.8
2012	116	15,286	3,496	11,790	77.1
2013	6	318	41	277	87.1
TOTAL	681	$90,141	$52,622	$37,519	41.6%

(a) Includes November 2002 approved elections only. At the March 2002 election, 65 K-14 GO bond elections were approved for just over $6 billion.

Source: CDIAC 2013

FIGURE 2

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT G.O. BOND AUTHORITY
PERCENTAGE UNISSUED BY ELECTION YEAR



(a) Includes November 2002 approved elections only.

Source: CDIAC 2013