Memorandum

TO: Governor’s Office, Legislative Leaders and Staff, Department of Finance

FROM: Public Advocates

DATE: April 9, 2024

RE: Exploring More Equitable School Modernization Funding

As set forth in our demand letter dated 2/21/24, California’s current school facility funding program is unlawful because it discriminates on the basis of wealth. We, and the impacted students, families, residents, and grassroots community organizations we represent, call on state leadership to take immediate action to end grossly unequal and unconstitutional disparities in the state’s school facility funding program by amending the current bills (AB 247 & SB 28) that would put an education bond on the November 2024 ballot. The purpose of this memorandum is to set forth our proposal for a more equitable school modernization funding scheme, which could also be applied to all School Facility Program (SFP) projects. However, given declining enrollment and the dire modernization needs across the state, we believe that any education bond should prioritize modernization needs. We will address the following 6 suggestions for a meaningful overhaul of school facility financing in California:

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1. **Drop the 60% universal match and adopt a sliding scale**

As an initial matter, we note that the point schedule in current legislative proposals is intended to address the widely recognized equity problem in school facility financing, but does not have the intended effect. The changes afforded by the point system, which only increase the state share by 5% for high-need districts, and maintains a 60% state match for the wealthiest districts, are not substantial enough to address the vast disparities in local wealth that exist across our state. (See Figure 1, which shows virtually no change to the current regressive system.)
Instead of a point system, we propose a linear sliding scale based on bonding capacity per student, which is based on the methodology used in Kansas. Under our proposed adaptation of the Kansas model, the district with the lowest bonding capacity per student (local assessed property value/district enrollment) would receive a 100% state match and the second lowest would receive a 99% state match. For every $1250 of increased bonding capacity, the state match would reduce the match by 1%. Under this model, the lowest-wealth districts would receive nearly full funding from the state and the wealthiest would receive no state funding because of their ability to generate sufficient capital funding through local bonds. This model is designed to level the playing field by providing proportionally more funding for lower wealth districts that have less ability to raise local funds for school facility projects than their wealthier counterparts. By providing a straightforward allocation formula, it embeds equity into the main funding program and eliminates most of the administrative burden of the financial hardship program (although we believe that a supplemental program to address unmet needs is still necessary). This model (Alternative 2) would make California’s school facility financing system significantly more progressive. See Figure 2.
However, the proposed straight linear sliding scale still advantages wealthier districts in the 4th quintile over less wealthy districts in the 2nd and 3rd quintiles. (This may be due in part to the fact that the data used to define “eligible projects” for modeling purposes is, by necessity, derived from the projects funded between 1998-2022 under the existing rules which advantaged wealthier districts and likely depressed demand from less wealthy ones.) In any event, we propose two additional adjustments to the straight sliding scale that would ensure low wealth districts are well-served and that wealthier districts do no better than the current 60% match:

- Provide full funding for the lowest wealth districts in quintiles 1 and 2; and
- Cap the state match for the wealthiest districts in quintiles 4 and 5 at the current level of 60%.

Given the gross underfunding of school facilities for low-wealth communities of color over multiple generations, this rebalancing is fair and equitable. Any unmet needs for districts can continue to be met by a supplemental program, but the onus will no longer be on the lowest wealth and highest need districts to make their case for full funding. The adjusted sliding scale (Alternative 3) will result in a progressive school facility financing system. See Figure 3.

2. **Maintain a Supplemental Program**

As detailed in the demand letter and reporting on this issue, the current financial hardship program is complicated, time-consuming, burdensome, and often punitive. Adopting a sliding scale would obviate the need for most districts to seek funding through this supplemental program, but it should be maintained and improved to address any needs that are not met through the main program. We suggest the following changes to the current financial hardship program:

- Rename the program as supplemental because “financial hardship” is pejorative.
• Revisit modernization grant amounts to reflect the actual cost of building quality facilities -- one of the challenges of using the hardship program is that the project budget is unreasonably limited and it is not possible for hardship districts to spend more for quality facilities without penalty.

• Identify and eliminate punitive aspects of the program.

• Amend eligibility for supplemental funding as follows: (1) increase the total bonding capacity basis for eligibility from $5 million to $15 million, as AB 247 proposes; (2) shortfall after a bond was passed for the maximum allowed in the last 5 years (increased from 2 years because it is not reasonable to expect a community pass a bond every 2 years); (3) bond indebtedness of at least 50% of total bonding capacity; and (4) more equity clarity around the “other” ground for eligibility that provides less discretion to the State Allocation Board.

If the sliding scale is adopted, the supplemental program will likely be significantly reduced, but these amendments are important to ensure that it fulfills its intended purpose to address gaps when districts cannot raise their share of the project costs after reasonable effort.

3. **Replace First-Come First-Served with Equitable Prioritization of Applications, Technical Assistance, and Regular Monitoring**

As discussed in our demand letter, the State Auditor and others have documented the built-in advantages that higher-wealth and larger-staffed districts have in accessing modernization funds through a complicated system that has largely relied on a first come, first-served distribution scheme. Generally, we agree with the proposed prioritization set forth in **SB 28**, with the following revisions:

• After health and life safety hazards, we suggest that quintile 1 and 2 schools should be processed next, and then financial hardship applicants as the third priority. As discussed above, the need for supplemental funds for low-wealth districts will be significantly reduced if a sliding scale is adopted.

• We also suggest eliminating the number of points as a priority if our sliding scale proposal is adopted.

Finally, we agree with SB 28’s quarterly processing of applications and would add a duty that the State Board of Allocation also analyze on a quarterly basis whether the SFP funds are distributed equitably according to district wealth. A process should be created that would allow for modification to the prioritization of applications and/or the distribution scheme if low wealth districts are not receiving the funding they need to modernize their school facilities.
4. **Statewide System to Track and Monitor School Facility Conditions**

California has no statewide database of the age or condition of school buildings, which makes it nearly impossible to estimate modernization funding needs and prioritize limited funding equitably. Both AB 247 and SB 28 include provisions to address this concern, but limit data collection to districts that apply for state funding. Our position is that the state has a duty to create and maintain a statewide database of school facility condition information of all public schools in the state and not just funded projects. Many other states have statewide databases with this information, including Oregon, Washington, Vermont, and others.

5. **Expand use of modernization funds beyond classrooms to address community school infrastructure needs**

As described in our demand letter, insufficient school facility funding impacts students, families, and educators beyond the classroom by limiting districts’ ability to provide integrated student supports, expanded and enriched learning, programs for families, spaces for student and family engagement, and alternatives to suspension, among other things. As California invests billions of operating dollars into community schools, mental health support, robust after school programming, early childhood education, it is crucial that capital funding also increase and expand. The current modernization program is very focused on classrooms and should be updated to address the holistic facility needs of schools, especially those that are community schools. Both AB 247 and SB 28 expand use of funds beyond classrooms and AB 247 includes a supplemental grant for expanding or creating one of the following: gym, library, multipurpose room, or kitchen. These are important advancements, but high need school communities need more than one new or updated non-classroom space. We suggest amending the supplemental grant program in AB 247 as follows:

- Expand the supplemental program to allow more than one non-classroom use
- Expand allowable non-classroom projects to include wellness centers, parent centers, and other spaces needed for community school implementation

6. **Provide robust technical assistance to districts with limited capacity**

Assessing facility needs, identifying and securing funding, and modernizing facilities is extremely complicated, burdensome, and time-consuming. As discussed in our demand letter, some superintendents are spending significant amounts of time working as general contractors in addition to their superintendent duties, which inevitably takes away from day-to-day operational responsibilities. Districts with limited administrative capacity, especially small districts, need robust technical assistance. The federal Supporting America’s School Infrastructure (SASI) grant program, which provides nearly $5 million over the next 5 years towards improving and maintaining school facilities in small school districts across California is a
good start, but additional resources are needed to support more districts/school sites. California needs sustainable infrastructure to support school districts across the state identify and address their holistic school facility needs.

A few final technical Points regarding the data:

1) To review the data underlying these proposals, please see the attached spreadsheet. “Alternative 2” is in the “Straight Linear” tab and “Alternative 3” is in the “Adjusted Linear” tab. Both simulations use actual SFP modernization allocations (including financial hardship) for 1998-2022, adjusted to 2023 dollars. The table includes nearly all districts in the state, with the exception of a few districts that lack complete assessed value data or have other data challenges. Each of the districts is ranked based on bonding capacity per pupil. As discussed above, the amount of state match reduces by 1% for every $1250 increase in bonding capacity per student. In column F (“Aid %”) you can see how the state match gradually decreases. The side table includes selected districts across the quintiles and shows how they would fare under our proposed model. The “Visuals” tab includes summary tables and charts, including Figure 3.

2) As reflected in the table below, Quintiles 3 and 4 would likely continue to receive the majority of total SFP modernization funding even under the progressive Adjusted Linear model we propose. However, that would largely be as a result of their larger enrollments, not as a result of unconstitutional discrimination based on local wealth.