



Memorandum

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

FROM: Public Advocates

DATE: June 21, 2024

RE: [Updated] 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:

Principles for More Equitable School Modernization Funding in CA

1. Drop the 60% universal match and adopt a sliding scale.
2. Maintain and expand a supplemental program (hardship) to address unmet needs.
3. Replace first come, first served model with equitable prioritization and monitoring.
4. Establish a system for assessing facility needs statewide on an ongoing basis.
5. Expand use of modernization funds beyond classrooms to address community school infrastructure needs.
6. Robust technical assistance for districts that have low capacity

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. Unfortunately, these modest changes do 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 maintain 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.)

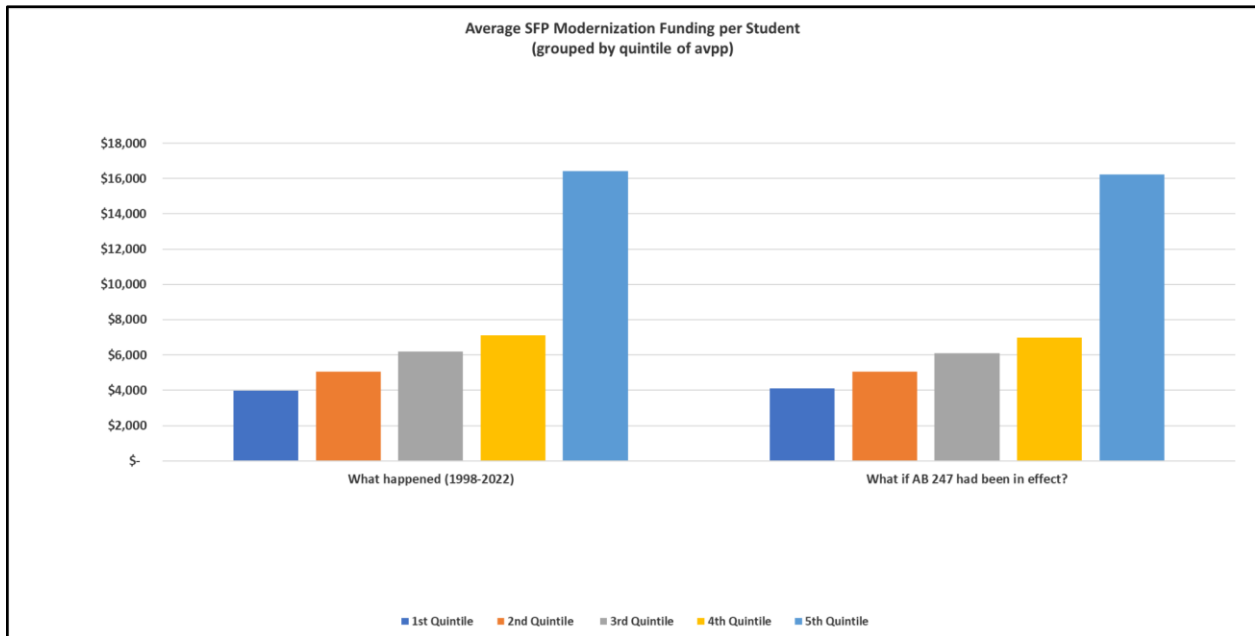


Figure 1

Instead of a point system, we propose a linear sliding scale based on assessed valuation per pupil (AVPP),¹ which is based on the methodology [used in Kansas](#). Under a linear sliding scale model, the districts would be ranked based on AVPP and the district with the second lowest AVPP would be assigned a 100% state match. For every \$45,000 of increased AVPP, the state match would reduce the match by 1%. Several variations on this model are possible:

1. A straight linear sliding scale from 0-100% state match.
2. An equitable rebalancing of the linear sliding scale that would provide full funding for the lowest wealth districts in quintile 1. Given the gross underfunding of school facilities for low-wealth communities of color over generations, this rebalancing is fair and equitable.
3. An adjusted sliding scale that would cap the state match at 95% and provide a baseline of 5% state match to all districts. Under this model, the lowest-wealth districts would

¹ Our goal is to develop a sliding scale program that will increase state facility funding match amounts as local property wealth decreases. In a prior memo, we used bonding capacity per pupil (BCPP), which is the actual amount that districts can raise locally to fund school facilities (2.5% of assessed value for unified districts and 1.25% of assessed value for elementary and high school districts). However, we are now using assessed value per pupil (AVPP) as a more accurate measure of wealth in as much as elementary and high school districts (ESDs/HSDs) are systematically lower in the wealth ranking than unified school districts (USDs) because their bonding capacity is half that of USDs. Their lower ranking when using BCPP is less a reflection of their actual property wealth than the statutory limits of what they can raise. This is inconsistent with the spirit of our sliding scale which aims to remedy disparities in actual wealth. In fact, certain wealthy regions with multiple ESDs like Santa Barbara were tripling/ quadrupling up on a deeper state match because we were recording their wealth through a measure--bonding capacity--that by definition, was half that of USDs. Overall, using AVPP provides a more uniform and accurate basis to compare wealth between districts regardless of whether they are ESD, HSD, or USD. Therefore, we have now adopted the AVPP wealth measure in our proposal over that of BCPP. This change impacts the ranking of districts somewhat, but it makes the ranking more fair overall. A small number of low wealth ESDs are disadvantaged by this change, but we will propose an additional ground for supplemental funding (or financial hardship) that should address this disadvantage: districts that are below the median bonding capacity per student would also qualify for supplemental funding.

receive nearly full funding from the state and even the wealthiest would receive some state funding.

All of these models are 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 significant administrative burden of the financial hardship program which has been unequally visited upon low-wealth districts. (Even so, we believe that a supplemental program to address unmet needs is still necessary).

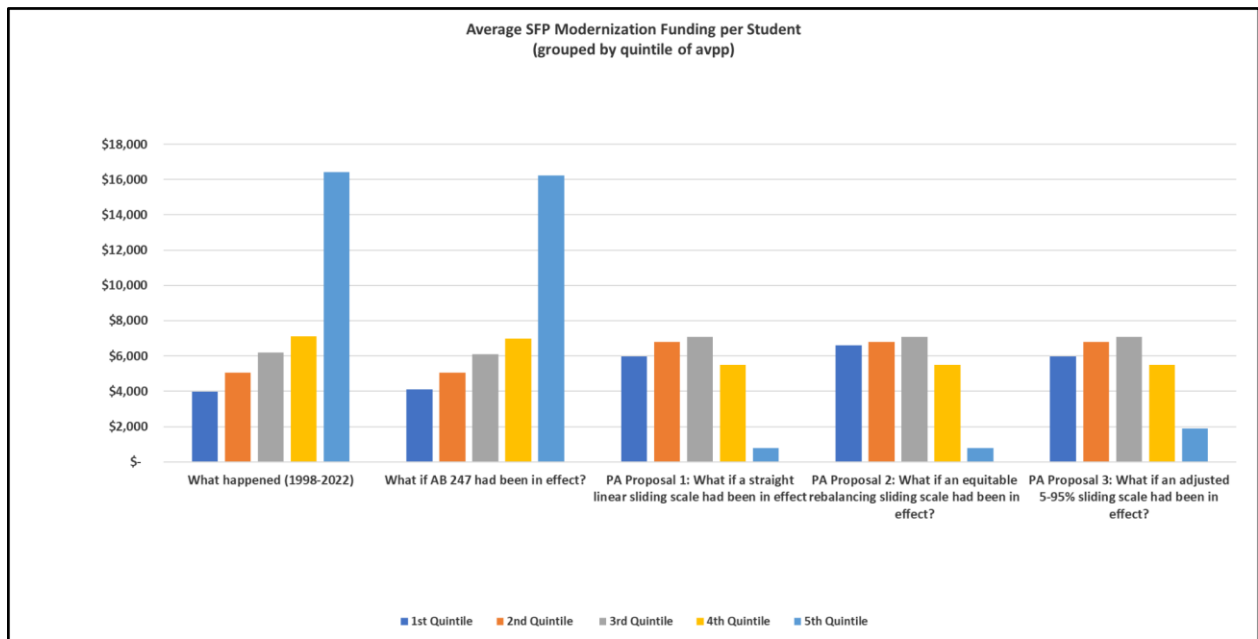


Figure 2

Two points worth highlighting:

First, starting the sliding scale at 60% – as proposed by the pending AB 247 – does not work because it will maintain significant inequities in the allocation of state modernization funds. See Figure 2. The only way to achieve equity is by reducing the 60% match for higher wealth districts. This is fundamentally fair as those districts have proportionally greater (often exponentially greater) access to local bond funds which are the primary means for capital K12 financing.

Second, compared to what happened and the pending AB 247 proposal, the relative progressivity of the sliding scale models is evident. We believe that if the 5%-95% or one of the other sliding scale approaches were adopted, the rule changes would also meaningfully change district behaviors, resulting in an even more progressive distribution than reflected in Figure 2. The data for the models in Figure 2 derives from applications funded between 1998-2022; we believe the prior discriminatory rules dampened application submissions from low-wealth districts and likely over-incentivized projects from high-wealth ones, thus skewing the picture of how new models might play out going forward.

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) extend the period for evaluating a local match shortfall after a bond has passed from 2 years to 5 years; (3) reduce the threshold of bond indebtedness from 60% of bonding capacity to 50% of bonding capacity; and (4) create an additional ground of eligibility for supplemental funding for low-wealth districts that are at or below the median bonding capacity per student.

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, and 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. To model how needs across the state might be met under the various distribution schemes, these simulations use actual SFP modernization allocations (including financial hardship) for 1998-2022, adjusted to 2023 dollars. The spreadsheets include nearly all districts in the state, with the exception of a few districts that had data input anomalies and a few dozen mostly very small districts that received no SFP funding during this period. Each of the districts is ranked based on AVPP. As discussed above, the amount of state match reduces by 1% for every \$45,000 increase in AVPP, with a floor of 5% and a ceiling of 95%. 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 Figures 2 and 3.

- 2) In our previous communications (the memorandum dated April 4, 2024 and June 4, 2024), we used a dataset of 766 districts that received SFP allocations from 1998-2022 and had complete assessed value data from Eastshore Consulting. The attached spreadsheet includes an additional 35 districts that received SFP allocations during 1998-2022; these districts lacked complete AV data from Eastshore Consulting, but we were able to assign assessed value information from another source (State Controller data).² The data in this memo also switches to a different inflation index for SFP funds, which increased the total amount of modernization dollars in our dataset. These changes account for the numerical differences in this memo and attached spreadsheet and previous communications.

² Our dataset is missing districts that received no SFP modernization funding, as well as a handful of districts that received modernization funding but lack assessed value information (some of which no longer exist because they have been folded into unified or other school districts). The districts that received no SFP modernization funding are analyzed in the Center for Cities + Schools recent blog: ["Moving to Equity: California School Facility Program Reform."](#)

3) As reflected in Figure 3 below, our proposals would distribute state facility funding relatively equally among students. Figure 3 reflects the share of state modernization funding that would go to quintiles of equal enrollment, based on assessed value per student. (Note: Figures 1 and 2 are based on district quintiles, but Figure 3 is based on student enrollment quintiles to compare the share of funding received among students.) Under each of our proposals, the first four quintiles (or 80% of students) receive a relatively equal share of state modernization funding (between 19-24%), with the highest quintile (the 20% of students attending schools in the wealthiest areas) receiving less because they have the capacity to raise significantly more local capital funds. In contrast, the current system and AB 247 would drive more than half of state modernization funds to students living in the wealthiest areas (the 2 wealthiest quintiles), while students living in the poorest areas would receive the smallest share of state funding.

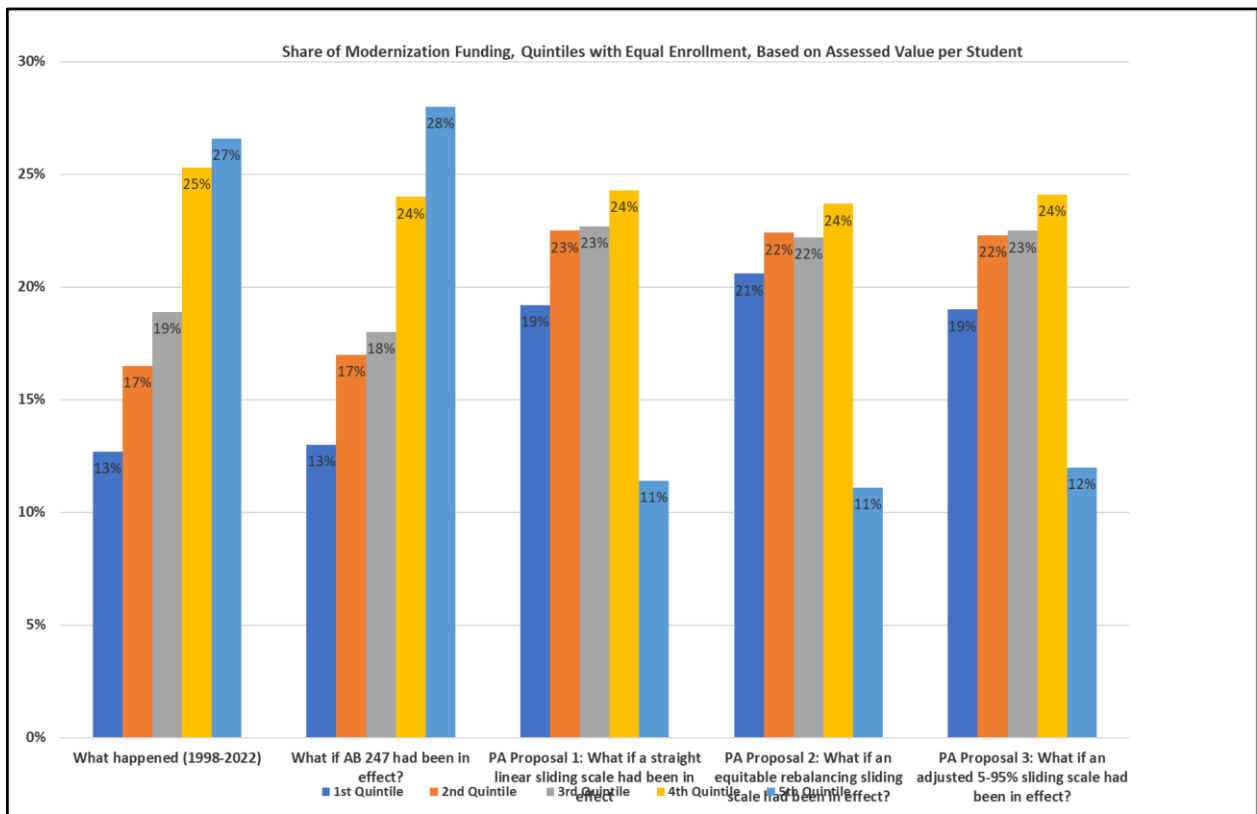


Figure 3