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Subject: Update on School Facilities Hearings and the LAO Report
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Both Houses Hold Hearings on Governor's Facilities Proposal

One week apart, the Education Committees of both houses held lengthy hearings on the state of the school facilities program, explored the Governor's facilities proposal that would create programmatic reforms but would also greatly reduce the state's role in funding school facilities. Both committees heard from major stakeholders including CSBA, CASBO, CASH and the California Building Industry Association (CBIA). There was almost unanimous opposition to the Governor's proposal and strong support to maintain the current state-local partnership that has been in place since 1998.

During the hearing today in the Senate, the members were able to hear from the Legislative Analyst's Office which unveiled its facilities recommendations on Tuesday. Perhaps not too surprising, the LAO agreed that the current program was far too complex and needed to be simplified. The LAO went on to indicate that it strongly supported the Governor's approach that there were far better alternatives to fund schools than expensive 30 year debt. Instead, the LAO suggested that funding for facilities come from state general fund allocations and become a part of the LCFE with annual allocations made for this purpose. Senator Block, who also chairs the Senate's Budget Subcommittee on Education, asked the LAO directly if it was their position that the fund source be proposition 98. While the reply was initially vague, the LAO representative finally did indicate that this was the likely approach. Virtually every education stakeholder witness thereafter indicated strong opposition to the use of Prop 98 funding for school construction. The LAO's report is attached.

The two committees tried to target the key issues that would be facing the legislature as it addressed any reforms related to the state's construction program and the need to the state to continue to use bonded indebtedness. These questions, asked directly to various witnesses, included the following:

- * What recommendations emerge from prior reviews of the current program?
- * What have other states done to meet the challenges of school construction?
- * What options exist for districts to meet their needs at the local level?
- * What are the political and capacity challenges facing districts in generating local revenues?
- * How can the current state program be improved?
- * Are there specific administrative and programmatic changes needed?

The members of both committees were very engaged in the discussion of the issues and many of them seemed to have formed their own opinions quite early in the process. Assembly Member Patrick O'Donnell, the Assembly Education Committee Chair, indicated that he, as a former teacher who had been in a portable classroom for more than a decade, was fully committed to continuing the current state-local bond partnership. Similar comments were made in the Assembly by both Republicans and Democratic lawmakers. The pronouncements by Senators were far fewer, but they did ask probing questions regarding whether the current program needed to be abandoned or merely tweaked to improve efficiencies and streamline processes.

In response to many of the questions by legislators in today's Senate hearing, Rob Pierce, from Elk Grove USD, made perhaps the most powerful comments in the two days of hearings. In response to the LAO's suggestion that facilities could be built by having districts get annual allocations of state General Fund dollars, he indicated that for his district to be able to meet its facilities needs, it would need predictable revenue streams that it could leverage in the bond market in order to generate the dollars needed to build multi-million dollar schools. Because the plans laid out by the governor and the LAO seem to be based on revenue from the state's GF, there would be no way for an underwriter or ratings agency to approach such local bond debt. The alternative proposals are based on the vagaries of the state's economy and our annual budgeting priorities.

On the same panel with Mr. Pierce was Rob Hudson, the superintendent from the Alpaugh USD in Tulare County. Alpaugh is in the state's hardship program

and Dr. Hudson told the committee that under the current hardship program it will take 17 years to fully complete construction of their new school. As Dr, Hudson went on to indicate, should the state pivot to a hardship-based sliding scale based on a districts assessed valuation, that Alpaugh, which is not able to pass a local bond, would never be able to finish its only school in the district. This testimony clearly resonated with the Senators.

These hearings were the first in what will be an on-going debate and discussion about how to the conflicts between the governor, legislators and education stakeholders over the state's construction and bond programs. We will keep you informed and continue to advocate for a continuation of the state-local partnership and reasonable programmatic reforms.

Jeff