

DAN WALTERS FEBRUARY 8, 2016 3:42 PM

Dan Walters: California school bonds can be source of scandal

HIGHLIGHTS

Gov. Jerry Brown wants to get out of construction bond business

Local school districts would shoulder more burden

However, school bonds can foster insider dealing



A Harris Construction got a no-bid contract to build Gaston Middle School for Fresno Unified School District in 2012. A lawsuit over the contract led to an FBI investigation of insider dealing. **CRAIG KOHLRUSS** -Fresno Bee file

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Over the last four decades, California has borrowed nearly \$45 billion via bonds to finance construction projects for the state's K-12 school districts.

Repaying the loans with interest has roughly doubled the face value of those bonds. And as Jerry Brown winds down his second governorship, he wants to change the practice.

Public school enrollment has been dropping and is likely to drop even more, Brown says, adding that the state is still paying out \$2 billion a year to service old school bonds and construction money has been doled out unfairly, with little regard to true need.

"The inherent problems with the current program, along with the billions of dollars in long-term liabilities created by the issuance of state debt, is no longer sustainable," Brown declares in his newly released 2016-17 budget.

A coalition of education groups and business and construction interests is proposing a \$9 billion school bond issue for the November ballot, but Brown says it "makes no changes to the existing programs" and would add another \$500 million a year to the state's bond tab.

There are some desultory talks about a smaller bond to forestall the \$9 billion measure, but nothing has emerged. Brown says he wants "a dialogue" on a new approach to school construction finance that would focus money on the greatest need and give local districts "new flexibility for districts to raise the necessary resources for their facilities needs."

What would that mean? Lower voting thresholds for bonds? Less red tape and state oversight of school design?

If, indeed, the state pulls back and places the construction burden on local authorities and taxpayers, perhaps it also should reform school construction politics.

A scandal in Fresno Unified School District, now under federal investigation, is a window into the cozy relationships that often develop among school executives and those who profit from construction programs, particularly contractors and bond financiers.

In Fresno, officials were handing out no-bid contracts to one firm that financed campaigns for the underlying bonds, using – or misusing – a loophole in bidding law.

Fresno, however, is not an isolate case. Many other districts have used the same loophole to avoid competitive bidding on contracts and also solicited bond issue campaign funds from financial houses.

State Treasurer Bill Lockyer, and later successor John Chiang, were concerned about the practice, and asked Attorney General Kamala Harris whether it's legal for those in the bond financing business to get involved in the campaigns. Harris, in an opinion issued last month, declared that it is illegal for firms to provide "pre-election services" in return for a promise to get the underwriting business should the bond measure pass.

The case in Fresno Unified, the certainty that it represents a much larger problem and Harris' opinion all imply that if school districts are cut free from the state's underwriting of school construction, they need some new ethics standards.