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CALIFORNIA STATE ALLOCATION BOARD

PUBLIC MEETING

STATE CAPITOL
ROOM 113
SACRAMENTO, CALIFORNIA 95814

DATE: WEDNESDAY, MARCH 27, 2019

TIME: 4:05 P.M.

Reported By: Peter Petty
eScribers

1 APPEARANCES:

2 MEMBERS OF THE BOARD PRESENT:

3 KEELY MARTIN BOSLER, Director, Department of Finance

4 DANIEL KIM, Director, Department of General Services

5 CESAR DIAZ, Appointee of Edmund G. Brown, Jr., Governor of
6 the State of California

7 JUAN MIRELES, Director, School Facilities and Transportation
8 Services Division, California Department of Education,
designated representative for Tom Torlakson, Superintendent
of Public Instruction

9 SENATOR SCOTT WILK

10 SENATOR CONNIE LEYVA

11 SENATOR RICHARD D. ROTH

12 ASSEMBLYMEMBER ADRIN NAZARIAN

13 ASSEMBLYMEMBER JAMES GALLAGHER

14 REPRESENTATIVES OF THE STATE ALLOCATION BOARD PRESENT:

15 LISA SILVERMAN, Executive Officer

16 REPRESENTATIVES OF THE DEPARTMENT OF GENERAL SERVICES, OFFICE
17 OF PUBLIC SCHOOL CONSTRUCTION (OPSC) PRESENT:

18 LISA SILVERMAN, Executive Officer

18 BARBARA KAMPMEINERT, Deputy Executive Officer

19 REPRESENTATIVE OF THE DEPARTMENT OF GENERAL SERVICES,
20 OFFICE OF LEGAL SERVICES PRESENT:

21 TOM PATTON, Assistant Chief Counsel

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P R O C E E D I N G S

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CHAIRPERSON BOSLER: We're going to call the State Allocation Board meeting to order. Secretary, will you please call the roll.

MS. JONES: Senator Wilk.

SENATOR WILK: Present.

MS. JONES: Senator Leyva.

SENATOR LEYVA: Here.

MS. JONES: Senator Roth.

SENATOR ROTH: Here.

MS. JONES: Assemblymember Nazarian.

Assemblymember O'Donnell.

Assemblymember Gallagher.

ASSEMBLYMEMBER GALLAGER: Here.

MS. JONES: Juan Mireles.

MR. MIRELES: Here.

MS. JONES: Cesar Diaz.

MR. DIAZ: Here.

MS. JONES: Daniel Kim.

Keely Bosler.

CHAIRPERSON BOSLER: Here.

MS. JONES: We have a quorum.

CHAIRPERSON BOSLER: And I'd just like to briefly welcome Senator Roth and Senator Leyva, our newest members

1 of the State Allocation Board. Welcome.

2 (Applause)

3 CHAIRPERSON BOSLER: They are replacing Senator
4 Pan and Senator Allen and we do have -- if you haven't
5 signed them already, we have some memorabilia for them.

6 Second, I'd just like to note that there are two
7 appeals items that we received some last minute information
8 and the Board staff said they needed more time, and so we
9 are going to -- that's under Tab 6. We're going to withdraw
10 those from the agenda today so we can have full information
11 before we bring it back and have a discussion about those
12 two items.

13 Did you have anything else that you wanted to say?

14 MS. SILVERMAN: No.

15 CHAIRPERSON BOSLER: Okay. All right. So the
16 first -- Tab 2 is the **Minutes** from the February 27th
17 meeting. Is there any comments from the committee members
18 about the Minutes or from the public?

19 SENATOR WILK: Move approval.

20 MR. DIAZ: Second.

21 CHAIRPERSON BOSLER: It's been moved and seconded.
22 Can I please have the roll.

23 MS. JONES: Senator Wilk.

24 SENATOR WILK: Aye.

25 MS. JONES: Senator Leyva.

1 SENATOR LEYVA: Aye.

2 MS. JONES: Senator Roth.

3 SENATOR ROTH: Aye.

4 MS. JONES: Assemblymember Gallagher.

5 ASSEMBLYMEMBER GALLAGER: Aye.

6 MS. JONES: Juan Mireles.

7 MR. MIRELES: Aye.

8 MS. JONES: Cesar Diaz.

9 MR. DIAZ: Aye.

10 MS. JONES: Keely Bosler.

11 CHAIRPERSON BOSLER: Aye.

12 MS. JONES: And that motion carries.

13 CHAIRPERSON BOSLER: Great. And now we'll move
14 onto Ms. Silverman's **Executive Officer Report**.

15 MS. SILVERMAN: We have a few things to share
16 tonight. Upcoming bond sale, this is great news. The
17 Treasurer's Office held a bond sale this month and we will
18 be bringing a few hundred million dollars this month for
19 apportionments for the State to take some action on those
20 projects. So we look forward to bringing those items in a
21 few weeks.

22 And the second item we wanted to share is we
23 shared last month that we were definitely on the cusp of
24 hitting the threshold of modernization applications received
25 that will definitely tip our modernization bond authority

1 that we have to fund projects in the future.

2 So as of March 1st, we have sent notification to
3 those districts. So any future applications beyond that
4 date, they will be placed on the applications beyond bond
5 authority list.

6 So what does that mean? Districts have to submit
7 with their future applications an acknowledgement that
8 there's no guarantee of future funding and it has to come
9 with a school board resolution and the acknowledgement has
10 to be in accordance with the regulations 1859.95.1.

11 So again, any future modernization applications
12 must be -- we'll accept those applications and they will be
13 placed on the acknowledged list.

14 So just put in perspective, the modernization
15 applications that came through the door from March 1st
16 through March 15th, although they're not part of your agenda
17 tonight, we have 48 million of those projects that are on
18 the acknowledged list of the future. So just wanted to
19 highlight that to the Board.

20 And we also have \$261 million in new construction
21 applications that are also on the acknowledged list as well.
22 So looking forward to share that with you next month.

23 We also wanted to highlight there's a new website
24 format for OPSC and that is really a great item that we
25 wanted to share with you, is accessibility compliant. It's

1 a little bit to get used to, but it's -- again, it's a lot
2 of great features on there and we wanted to share that with
3 you.

4 It is also, again, some great information. Your
5 meeting tab is where you're going to find our agenda. So
6 again, look forward to that. Our agenda will be on the
7 meetings tab and also you'll find our archive information.

8 It will take some time for us to load. We got as
9 far as back as 2017 on loading our archive agenda. I know
10 we had that going back to 1998, but we'll get to that as
11 soon as we can.

12 Another item we want to promote there is our data
13 dashboard and if you haven't had an opportunity to visualize
14 what that data dashboard's about, it really is a lot of
15 great information and we're looking forward to having that
16 realtime data. You can actually sort this information by
17 all the prior initiatives from Proposition 1A all the way to
18 the current proposition by funding source, by legislative
19 district, by school site, by school district.

20 So again, a lot of great filters in there. So
21 more to share and we interested to sharing that in the
22 future where the public can run those reports live and that
23 will be featured in the State open data portal. So we're
24 looking forward to brandishing that information online in
25 the future and again, to promote greater transparency. So

1 more to come in that area.

2 And then our next meeting is on April 24th.

3 CHAIRPERSON BOSLER: Thank you. Are there any
4 questions from the Board? From the public? Thank you for
5 the commitment. I know all of those refreshes of our
6 websites take a lot of time and effort. So thank you.

7 So the next issue is the **Consent Agenda**. Does
8 anyone have any questions about the Consent Agenda?

9 MR. DIAZ: Motion to approve.

10 MR. MIRELES: Second.

11 CHAIRPERSON BOSLER: We have a motion and a
12 second. Can you please call the roll.

13 MS. JONES: Senator Wilk.

14 SENATOR WILK: Aye.

15 MS. JONES: Senator Leyva.

16 SENATOR LEYVA: Aye.

17 MS. JONES: Senator Roth.

18 SENATOR ROTH: Aye.

19 MS. JONES: Assemblymember Nazarian.

20 MR. NAZARIAN: Aye.

21 MS. JONES: Assemblymember Gallagher.

22 ASSEMBLYMEMBER GALLAGER: Aye.

23 MS. JONES: Juan Mireles.

24 MR. MIRELES: Aye.

25 MS. JONES: Cesar Diaz.

1 MR. DIAZ: Aye.

2 MS. JONES: Daniel Kim.

3 MR. KIM: Aye.

4 MS. JONES: Keely Bosler.

5 CHAIRPERSON BOSLER: Aye.

6 MS. JONES: And that motion carries.

7 CHAIRPERSON BOSLER: Thank you. Now we're moving
8 right along. We've got the **Status of Fund Releases**.

9 MS. SILVERMAN: Yeah.

10 CHAIRPERSON BOSLER: Yeah.

11 MS. SILVERMAN: The financials, we wanted just to
12 highlight on that tab, page 40, we actually released
13 \$60.9 million in funds. So that's great for the fund
14 releases to report.

15 And then also moving forward is part of the
16 Consent Agenda on page 49. I wanted to highlight that the
17 Board did take action in approving \$187 million in project
18 approvals and that represents ten projects, and then we also
19 wanted to highlight that part of our closeout activity,
20 there's \$148,000 that was recouped as far as our closeout
21 activity for the program.

22 So again, that's part of our -- that's part of the
23 Consent Agenda tonight. So with that, I'm happy to answer
24 any questions.

25 CHAIRPERSON BOSLER: Any questions? Any questions

1 from the public?

2 MS. JONES: Madam Chair, would you like me to go
3 ahead and ask a couple members how they vote on the Minutes?

4 CHAIRPERSON BOSLER: Sure.

5 MS. JONES: Daniel Kim, how do you vote on the
6 Minutes?

7 MR. KIM: Approve.

8 MS. JONES: And then Assemblymember Nazarian?

9 MR. NAZARIAN: Aye.

10 MS. JONES: Great. Thank you so much.

11 CHAIRPERSON BOSLER: So I think we're to

12 **Informational Items.**

13 MS. SILVERMAN: So we have the workload for the 90
14 days.

15 CHAIRPERSON BOSLER: Yes.

16 MS. SILVERMAN: And if there's no questions on the
17 workload --

18 CHAIRPERSON BOSLER: This is on Tab 7.

19 MS. SILVERMAN: Correct. Maybe we can open up if
20 we have any questions on --

21 CHAIRPERSON BOSLER: Is there any public comment
22 on this informational item? So we didn't have anything
23 else. So this is the time public comment. So this is a
24 very short meeting today. So I think we did have some
25 public comment. Thank you.

1 MR. DUFFY: So I use this?

2 CHAIRPERSON BOSLER: Yes.

3 MR. DUFFY: Okay. Thank you. Chair Bosler,
4 members, Tom Duffy for the Coalition for Adequate School
5 Housing. In the documents that you frequently receive,
6 you'll see a phrase that says lack of AB-55 loans.

7 An AB-55 loan is a mechanism that the Board had
8 used for about a quarter of a century from 1984 till the
9 recession but again in 2008-2009. In essence, it's a cash
10 flow mechanism that allowed the Board to make apportionments
11 on a monthly basis and to allow districts to be funded on a
12 monthly basis rather than waiting for six-month increments
13 as you currently do now.

14 When the recession began, we worked closely with
15 the Board at that time. The Board was worried and the
16 Department of Finance and Treasurer's Office was worried
17 that districts would not necessarily come in and take funds
18 when they were apportioned and so the Department of Finance
19 and the Treasurer's Office was loathe in the beginning to
20 sell bonds. This was the spring of 2009.

21 We -- the CASH organization surveyed school
22 districts and took information to Finance and the others and
23 it basically identified that school districts would indeed
24 come in for dollars if the projects were approved.

25 So bonds were sold and projects were apportioned.

1 But because of the circumstances, you began funding in these
2 longer term increments that are today still being used,
3 although we're past the recession.

4 We ask that you reinstate the AB-55 loan mechanism
5 to allow districts to be funded on a monthly basis and for
6 you to consider funding projects on a monthly basis or at
7 least go to every other month if you need to start it in --
8 you know, in some short order.

9 But this was a mechanism that allowed districts to
10 move projects as they needed to move them, to take advantage
11 of good bidding climates and right now, we know from the
12 research we do and consistently watch is that construction
13 costs are going up about a percent a month if not more and
14 that the longer that we wait -- if a project waits for
15 funding over a six-month period, it could have the 6 percent
16 increase, which means that you build less for the students.

17 So we ask that you consider reinstating the AB-55
18 loans.

19 Now, the question I think you may ask is, well, if
20 that's a loan and there's interest that is generated, where
21 does that come from, and our suggestion is that you consider
22 taking that from the bond funds themselves. The bond funds
23 are utilized to pay for the good people at OPSC and as well
24 as to fund projects. So I think that that would be a fair
25 way to fund these.

1 So again, our request is for you to consider doing
2 that. And I'm pleased to answer any questions if you have
3 any.

4 CHAIRPERSON BOSLER: Yeah. I'm trying to
5 understand. I have read your letter and I've looked at your
6 proposal. I'm trying to understand the problem that we're
7 solving because most -- a lot of the projects that come
8 before this committee have already been constructed. So
9 bridge financing is a limiting factor for many of these
10 projects and we're just reimbursing the district.

11 I guess the other question I have is so we're
12 doing bond sales, yes, only, you know, twice a year, every
13 six months, and there is also already a mechanism for
14 hardship, for places where we need to be a little more
15 flexible from a cash flow perspective.

16 And so I guess I'm trying to understand how, you
17 know, really changing the AB-55 loan cap -- because right
18 now there's a loan cap of a billion dollars and that's a
19 decision that's made by the Pooled Money Investment Board --
20 you know, is really completely used up right now by other
21 State programs.

22 But I'm trying to understand first what the
23 problem is that you're trying to solve with your proposal.

24 MR. DUFFY: Your first point is certainly true.
25 It's an anomalous situation because of what happened in 2009

1 and beyond. So districts indeed did forward fund.

2 If they could from local GO bonds or local developer
3 fees or combinations, they'd forward fund projects. That's
4 not necessarily every district, however.

5 CHAIRPERSON BOSLER: Um-hmm.

6 MR. DUFFY: We have great disparities in terms of
7 wealth when it comes to property wealth in California. So
8 it's true that there will be districts that have basically
9 built their projects under reimbursement, but then again,
10 they have continued needs and those local bond dollars that
11 were used for a State funded project in advance means that
12 the project that it was initially identified for hasn't been
13 built or hasn't been repaired or modernized.

14 So we can't say that it's in every instance that
15 it's going to be a reimbursement, but even when it is, that
16 doesn't mean that the district doesn't need those funds.

17 CHAIRPERSON BOSLER: So are you -- then like
18 giving a loan for a project we haven't actually reviewed yet
19 in that circumstance?

20 MR. DUFFY: No.

21 CHAIRPERSON BOSLER: Okay. Okay. Sorry. I'm
22 just trying to follow.

23 MR. DUFFY: What I'm saying to you is when you
24 take action -- and we'd like you to do this on a monthly
25 basis, if you could. When you take action to apportion a

1 project --

2 CHAIRPERSON BOSLER: Oh, gotcha'.

3 MR. DUFFY: -- if those dollars are available to
4 the district immediately and under statute today, a district
5 actually has 18 months to move from the date of the
6 apportionment until it comes in to take those dollars.

7 That's not what's happening, though. What the
8 current circumstance is you identify that a project is
9 approved and they have to identify for you that they have
10 signed a contract within 90 days. So those dollars are
11 going out rapidly.

12 Would we want districts to move quickly on
13 projects? Yes. And so we'd like to have a discussion about
14 that if that's something that would further satisfy the
15 Board.

16 And back to your comment about hardship, hardship
17 projects may be funded. Now, Lisa talked to you about the
18 exhaustion of the modernization funds and the construction
19 funds. If a hardship project comes before you, you may not
20 be able to fund that project because you do not have funds,
21 but Lisa and Barbara and others may be able to gather some
22 scattering of dollars to fund it. We don't know.

23 CHAIRPERSON BOSLER: Commercial paper I think we
24 often are using for health and safety.

25 MR. DUFFY: However you could do that because that

1 certainly is a need. Career Technical Education projects
2 are something that you've approved and you're going to
3 approve more of those.

4 When districts are ready for those funds, if you
5 are able to on a monthly basis make apportionments and give
6 those dollars, they could commence their projects
7 immediately without waiting again.

8 So we think that this was done -- it was done for
9 a quarter of a century. It certainly was a good practice
10 and it was only stopped because of the great recession.
11 We're long past the recession.

12 No further questions, then thank you very much.

13 MR. KIM: I'm sorry. I have a question. I know
14 just enough to be dangerous here.

15 So it sounds like the request is to get the money
16 sooner to avoid the cost escalation for that school project;
17 is that correct? That would save -- ultimately would save
18 the school district money or they could purchase more with
19 the funds that they have available.

20 And your thought was that as far as the interest
21 being paid, that would be paid out of the large bond
22 proceeds. But what that would effectively do is make less
23 available for other school districts that want funds.

24 So would you be willing to entertain the idea of
25 the school district that wanted the money sooner would pay

1 the interest on those loans? That way the monies would
2 still be available for other schools that aren't -- haven't
3 received their funds yet.

4 MR. DUFFY: Let's discuss that maybe further.
5 When this was done before, it was done without any
6 consideration for the State trying to recoup dollars from
7 bond funds or from districts. It was done because it was
8 considered to be a good practice.

9 School construction in California was a major part
10 of construction and it still is today. In fact, during the
11 recession, Mr. Kim, it was the only game in town for
12 construction from 2009 to about 2012 when you literally ran
13 out of capital funds.

14 But let's talk about that. The fact that it
15 worked so well for so long and was only stopped because we
16 were in fiscal straits is I think worthy of some
17 consideration. It worked for the Board for a long time.

18 CHAIRPERSON BOSLER: Yeah. And I just want to
19 remind you there was a whole suite of changes that were done
20 to our bond management that were done in conjunction with
21 the State Treasurer and the State Controller because there
22 were a lot of practices that had gotten pretty far afield
23 where we were issuing bonds and then not spending them for
24 many, many years and, you know, it was just not a good
25 practice. And so we've tightened up a lot of things. This

1 was just one piece of that.

2 So, you know, there are a lot of things -- you
3 know, in my world nothing is free and I think that Dan Kim
4 makes a good point, which is I mean it's essentially more
5 money for interest and less money for projects and I mean
6 that's a choice. But I mean that is the reality of what --
7 and I guess I don't really see the policy or the problem hat
8 is being served by the districts that come forward with
9 projects that are already constructed.

10 And so we're just coming in and offsetting their
11 costs.

12 MR. DUFFY: Again, we're going to work out of that
13 because that is -- as I said, that was an unusual
14 circumstance and it happened because of a recession.

15 CHAIRPERSON BOSLER: I think it's the majority,
16 though. It's the majority of projects that come before us
17 have already been constructed and occupied and we're just
18 making -- they've been in line and so they're getting the
19 money that they were entitled to through the process.

20 MR. DUFFY: But again, districts have forgone
21 building another project in order to do that and those funds
22 will allow that to continue. And of course, we never have
23 enough capital funds to deal with all the needs we have in
24 California.

25 CHAIRPERSON BOSLER: That's for sure, yeah.

1 MR. DUFFY: And we -- and it's really important.
2 I'm a credentialed teacher. I taught for about 14 years.
3 You only get a chance to educate a child in kindergarten
4 once. You only get a chance to educate a child in tenth
5 grade once. It only happens. Okay.

6 If you put that off, then that child loses that
7 opportunity. And building schools in California is
8 difficult business. It takes a long time, a lot of
9 planning, a lot of approvals through major agencies.

10 So the faster we get the project to the street,
11 the sooner students are served. I'll stop. Thank you very
12 much.

13 MR. LYON: Richard Lyon on behalf of the
14 California Building Industry Association, State home
15 builders.

16 We would concur with Mr. Duffy and his
17 recommendation on AB-55 loans and it's really part of a
18 larger frustration I think that many of us have about the
19 slow pace of bond sales and apportionments.

20 Prop. 55 passed in November of '16. That was 29
21 months ago and by my back of the envelope calculation, we
22 have gone to market on about a billion three in bonds. So
23 if we keep this pace up, it'll take 11 years to exhaust the
24 bonding authority under Prop. 51, and of course, that --
25 just on its face, that doesn't make any sense. So we --

1 CHAIRPERSON BOSLER: You did see the January 10th
2 budget proposal, correct? Yeah. Because that's doubling
3 that rate. Yeah. Okay.

4 MR. LYON: And we very much appreciate that. We
5 think that's a very good start, Madam Chair.

6 What we would like to see is a strategic plan to
7 get the bonds sold and apportioned by the end of 2020 and
8 the best way to do that we believe would be to, in this
9 budget year, do another 600 million in terms of bond sales
10 and apportionments and then have the plan -- the strategic
11 plan that would exhaust the remaining bonding authority by
12 the end of 2020.

13 So if we've done a billion three so far -- or a
14 billion four and we do another 600 million, that's two
15 billion. We'd have four billion that would have to exhaust
16 by the end of 2020.

17 As Ms. Silverman pointed out, there's a tremendous
18 demand on the system. The applications in for new
19 construction and modernization exceed the available bonding
20 authority. So there's demonstrable need out there.

21 So again, we support the CASH recommendation and
22 we would strongly encourage the Board to direct staff to
23 begin processing applications to do at least another
24 600 million in this budget year and then have a more
25 strategic plan to exhaust the Prop. 51 bonds by the end of

1 2020. Thank you.

2 CHAIRPERSON BOSLER: And that would just costs
3 more general fund money. I mean that's the reality of --
4 you know, the budget proposes a schedule that is more than
5 doubling what the last administration did on an annual
6 basis. That's going to be a big ramp up for Lisa and her
7 staff, but one that we very much support in the Newsom
8 administration.

9 But beyond that, I think it's questionable what
10 can be done in terms of getting the staff onboard, you know,
11 and then just as a consequence, that additional bond debt is
12 not built into our multi-year. It's another 40 million,
13 105 million budget year plus one, 161 million.

14 So we're getting into the budget dance with the
15 Legislature. So there'll be lots of time and space for
16 conversation about priorities for those ongoing dollars.

17 Is there any other comment? Otherwise, I think we
18 can adjourn. All right. Thank you, everyone.

19 (Whereupon, at 4:29 p.m., the proceedings were
20 adjourned.)

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TRANSCRIBER'S CERTIFICATE

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STATE OF CALIFORNIA)
) ss.
COUNTY OF SACRAMENTO)

I, Mary C. Clark, a Certified Electronic Court Reporter and Transcriber, Certified by the American Association of Electronic Reporters and Transcribers, Inc. (AAERT, Inc.), do hereby certify:

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That the foregoing transcript is a true record of the proceedings as recorded;

That I am a disinterested person to said action.

IN WITNESS WHEREOF, I have subscribed my name on March 28, 2019.

Mary C. Clark
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