CALIFORNIA STATE ALLOCATION BOARD

PUBLIC MEETING

STATE CAPITOL
ROOM 447
SACRAMENTO, CALIFORNIA  95814

DATE:  WEDNESDAY, JANUARY 25, 2017
TIME:  4:03 P.M.

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APPEARANCES:

MEMBERS OF THE BOARD PRESENT:

ERAINA ORTEGA, Chief Deputy Director, Policy, Department of Finance, designated representative for Michael Cohen, Director, Department of Finance

JEFFREY McGUIRE, Chief Deputy Director, Department of General Services, designated representative for Daniel Kim, Director, Department of General Services

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

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

ASSEMBLYMEMBER ADRIN NAZARIAN

ASSEMBLYMEMBER ROCKY CHAVEZ

ASSEMBLYMEMBER PATRICK O'DONNELL

REPRESENTATIVES OF THE STATE ALLOCATION BOARD PRESENT:

LISA SILVERMAN, Executive Officer

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

LISA SILVERMAN, Executive Officer

BARBARA KAMPMEINERT, Deputy Executive Officer

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

JONETTE BANZON, Staff Counsel
CHAIRPERSON ORTEGA: Okay. Good afternoon, everyone. I'd like to call to order the January 25th meeting of the State Allocation Board. Ms. Jones, if you could call the roll.


Assemblymember Chavez.

ASSEMBLYMEMBER CHAVEZ: Here.

MS. JONES: Assemblymember O'Donnell.

ASSEMBLYMEMBER O'DONNELL: Here.

MS. JONES: Juan Mireles.

MR. MIRELES: Here.

MS. JONES: Cesar Diaz.

MR. DIAZ: Here.

MS. JONES: Jeffrey McGuire.

MR. McGUIRE: Here.

MS. JONES: Eraina Ortega.

CHAIRPERSON ORTEGA: Here.

MS. JONES: We have a quorum.

CHAIRPERSON ORTEGA: Thank you. The first item of business will be Minutes from the December 5th meeting.

MS. SILVERMAN: The Minutes are ready for your approval.

CHAIRPERSON ORTEGA: Any corrections or edits to
the Minutes?

ASSEMBLYMEMBER CHAVEZ: Move approval of the Minutes.

MR. DIAZ: Second.

CHAIRPERSON ORTEGA: It's been moved and seconded.

All in favor of approval of the Minutes please say aye.

(Ayes)

CHAIRPERSON ORTEGA: Okay. Passes unanimously.

And next, Lisa.

MS. SILVERMAN: Yeah. We have the Executive Officer's Statement, and we have a few items to share tonight.

We wanted just to advise the Board with the passage of Proposition 51 that provided $500 million for the Charter School Facilities Program that we have a filing round open up on February 6th and that will close on June 5th. And so with that, we will be having some outreach opportunities and some webinars and so we'll be posting that -- those type of activities in the near future.

And we also wanted to share that in August, we had almost $80 million in funding that went out to school districts and we had a deadline of November 15th and we wanted to share with the Board, there was two projects that didn't make the filing round deadline. And so with that, they were two charter school projects, design grants, and
they didn't lose their apportionments, but in fact they just got a new date in line.

    CHAIRPERSON ORTEGA: Okay.

    MS. SILVERMAN: And with that, we also wanted to share there's a scheduled meeting for February 22nd.

    CHAIRPERSON ORTEGA: Okay. Any questions on that?

All right. Seeing none, we'll move to the Consent Calendar.

    MS. SILVERMAN: Consent is ready for your approval.

    CHAIRPERSON ORTEGA: Okay.

    ASSEMBLYMEMBER CHAVEZ: Move approval of the Consent Agenda.

    MR. DIAZ: Second.

    CHAIRPERSON ORTEGA: All right. Moved and seconded. Any public comment on any of the items on the Consent Agenda? Seeing none, all in favor say aye.

    (Ayes)

    CHAIRPERSON ORTEGA: I will hold that item open so Mr. Nazarian can add on when he joins us, if he chooses.

    Item 5, the Financials.

    MS. SILVERMAN: Yeah. On page -- highlight your attention, on page 42, we've been summarizing with the Board the activity of when we've been liquidating the cash. And so we didn't have financial information shared with the Board at the December meeting since it was a short,
abbreviated meeting.

But on page 42, we wanted to share with the Board that $42.2 million went out to school districts as a result of the apportionments that were enacted in August. So we just wanted to share that with the Board.

And then if I can direct your attention to page 45, and that is the Status of Funds which we shared with the Board just the financial availability. And so we wanted to share there's a posting of Proposition 51 and it's now in the upper tier bracket and it shows $7 billion that's there for the program.

With the activity that was approved in the Consent Agenda, we had one rescission in the Charter Program and that was in Proposition 1D and that's in the orange category.

And then we also wanted to share that there was close-out activity that resulted in nearly a half million dollars that came into the program as a result of the close-out recoveries.

And on page 46, we wanted to highlight also to the Board that there were nine projects for nearly $3 million that went out for the Emergency Repair Program, and those are the result of additional funds that came back in the program of $9.2 million as a result of districts returning back savings. And with that --
CHAIRPERSON ORTEGA: Okay. Any questions? All right. Seeing none, we move to Item 6. This is the Review of the Office of State Audits and Evaluations Report and the Accountability Program.

MS. SILVERMAN: So on page 70, we wanted to provide the Board a follow-up to the audit that was issued back in August. And I know we shared with the Board briefly that -- and we didn't have a report in its full detail, but I did share with the Board that we also wanted to provide some updates once we had a clear vision of whether or not Proposition 51 had passed. And that was also part of my response to the audit as well.

So with that, now that we're here -- we're here and the passage of Prop. 51 and we thought there is some key information that we wanted to share with the Board.

Back in 2007, after the 2006 bond initiative, there was an executive order and that executive order called for upfront in-progress and close-out accountability and that also provided with the passage of those bond initiatives and any future bond initiatives, that would provide -- the executive order -- an oversight responsibility to the Department of Finance to audit the program to ensure that the bond funds were appropriately spent in accordance with the bond requirements.

So we highlighted that as an important indication
of some of the gaps that we may have in the current program. One of the audit objectives OSAE had pointed out in their August 2016 report, they actually followed up on some 2011 findings and also conducted some field audits of some school district projects.

So on page 71, there's a summary -- a short list of findings that were critical findings that they wanted to share with the program.

One of the critical findings that they outlined was that we weren't conducting field audits, again, a critical component of the bond program. And they also had some questioned costs that they identified in the projects that they audited with the school districts.

They also highlighted that we had inadequate accountability of project savings.

So with that -- with the passage of Proposition 51, we think it's appropriate and imperative and timely to address the findings and to prevent these issues from recurring again and to ensure greater accountability of the bond funds.

So OPSC and the Board have a responsibility to Californians to ensure that the bond funds are appropriately accounted for in an expedient and approved process.

So in the Governor's budget for 2017-'18, the administration highlighted they intend to work with the
State Allocation Board, the Office of Public School Construction to revise policies and regulations to improve front-end grant agreements, and to complement this front-end accountability, the administration will also introduce legislation requiring facility bond expenditures to be part of the K-12 audit guide.

In this case, independent auditors will verify the local agencies' expenditures and they were appropriately spent in accordance to the bond program.

So with that, we wanted to introduce grant agreements concepts and define -- grant agreements are a useful tool and they obviously define the basic terms and conditions and accountability measures in which one would receive funding.

It also clarifies expectations and rights and responsibilities of all parties from beginning to the end. And it also addresses some of OSAE's key recommendations. It also makes really clear mutually agreed-upon requirements and also aids in restructuring the application process as it currently exists.

As you see on the bottom of page 72 is a chart -- or a diagram of some sort that actually explains from the time we receive an application process to the time that the district has three to four years to build the project and the timely requirements of submitting expenditure reports to
our program, it may take nearly eight to nine years before we come back to the district and may have some recommendations or findings that may have some issues with the project.

That's a long period of time in order for a district to try to correct any wrongdoings in some of their projects. So -- and that actually leads to the appeal workload being elevated to the Board because we didn’t have the ability to catch those issues sooner.

So grant agreements are commonly used with other government agencies including federal programs. And on page 73, we highlight and share some of those programs that are currently administrating grant agreements.

So with grant agreements, staff essentially can monitor how bond funds are spent and confirm that the project's hitting its milestones and they're met. Grant agreements will provide additional transparency and clearly defined expectations and responsibilities under the School Facilities Program.

So at this time, staff is seeking Board direction to proceed with the development of grant agreements and companion regulations and come back to a future Board meeting.

CHAIRPERSON ORTEGA: Okay. Thank you for the report. Any questions or comments? Mr. O'Donnell.
ASSEMBLYMEMBER O'DONNELL: Yeah. I have a question -- maybe a couple. So I understand -- I get that there's concerns out there. One of my concerns, though, is the timeline because I don't want to slow down our efforts to get this money out, et cetera.

So can you give me suggested timelines for us to take a look at the grant agreement concept? When will you bring it back? What's your prediction, et cetera?

MS. SILVERMAN: I mean once we come back with grant agreements, it's going to take a short timeline to develop that and then also get some input as well. So I think we -- I think February is probably a little short on our timelines. Maybe potentially move that back to a March meeting.

But we can also present on an emergency basis emergency regulations as part of that package. And in fact, if that's the case, then it could take 30 to 45 days before they became effective.

ASSEMBLYMEMBER O'DONNELL: And maybe you can help me understand the protocol of the process. So you would bring them back to this body.

MS. SILVERMAN: Um-hmm.

ASSEMBLYMEMBER O'DONNELL: And then ultimately the regulations would have to be adopted as well.

MS. SILVERMAN: Collect.
ASSEMBLYMEMBER O'DONNELL: Which would reflect the grant agreement --

MS. SILVERMAN: Correct.

ASSEMBLYMEMBER O'DONNELL: -- and the timeline for that is unknown.

MS. SILVERMAN: Well, that could be March -- as early as March.

ASSEMBLYMEMBER O'DONNELL: Okay. Again just, you know, I think the voters have spoken. They supported the bond. We need to do all we can inside this room for sure to get these projects up and running. So thank you.

CHAIRPERSON ORTEGA: Okay. Any other comments on the grant agreements? Is there any public comment on this item? Please come on up.

MS. HANNAH: Hi. Good afternoon. I'm Jenny Hannah. I am the Chair of the Coalition for Adequate School Housing and I represent Kern County Superintendent of Schools as my employer.

We agree -- CASH and our member districts are confident that we support transparency and consistency in terms of what's the expectation level for school districts for audit procedures and so we're hopeful to be included in those conversations.

We think that we can help with communicating an effort to not be duplicative or redundant in some of the
other local accounting and reporting procedures that we already do have for local bond funds and things of that nature. So we'd like to see some alignment with that process.

We also are hopeful and would encourage an expeditious process as well. We see an effort to do so and we're anxious to see that the districts that are ready and able to do school construction projects that are very needed in a lot of areas to be able to get the funding out and available to those districts.

So we just offer that CASH and our member districts and many of us are available to help in those conversations and studies. So thank you.

CHAIRPERSON ORTEGA: Thank you. Okay. Any other public comments on this item?

So this isn't an action item per se, but we were hoping that as a Board we could affirm that the grant agreements were important and necessary to move the program forward and direct staff to bring something back and that would be targeted for the March Board meeting to bring back kind of a draft of what this would look like.

So without any objection on that point, that will be the direction to staff.

MS. SILVERMAN: Okay.

CHAIRPERSON ORTEGA: Okay. Thank you. Next is
the **Overview of the Informational Lists.**

MS. KAMPMEINERT: Yeah. So the next item is a report item on the informational lists that are existing under the School Facility Program. And we wanted to bring this item forward just as a refresher or as an introduction for Board members.

It's been a number of years since the lists that we refer to in this program have been created, so at the bottom page 115, we have a little graphic there that displays the three different lists that we have in the program.

And the green-colored graphic is representing the unfunded list (lack of AB-55 loans). And this list is the one that we have been operating off of for the existing bond funds prior to the passage of Proposition 51 where the Board is providing unfunded approvals and then projects go onto this list to await cash from a future bond sale.

So that process is currently working and in place. But we have two additional lists that we believe are going to require further Board action at a future meeting.

The middle category is the unfunded list which is sometimes referred to as the true unfunded list and that is a batch of projects that came in from October of 2012 and also from May 2012, depending on whether it was new construction or modernization.
It was just a short window of time and that list existed under the School Facility Program regulations for a number of years and it was during this time frame that the Board had discussions on whether or not this list should be continued in the light of the fact that bond authority had been exhausted in the program.

So the Board had made a decision to stop accepting applications under this regulation and created new regulations for the applications received beyond bond authority list which is the blue list category there. But until those regulations took effect, we had projects that were still coming in under the old regulations.

So the unfunded list represents projects that were processed by OPSC during that time frame, and on page 117, we break down the projects that are on that list and we have 26 applications for new construction representing the 178 million in funds, and in modernization, we have 103 applications for about -- just under $190 million worth of funding.

And those applications have been processed and are awaiting bond authority.

The third list, the applications received beyond bond authority, that was the list that the Board had created that was allowing school districts to continue submitting projects, but OPSC was not to review them.
So they have not been processed or reviewed by our office. They have come into our office in just a very basic document intake process to make sure that we log that they've come in and what type of application it is, but they have not been reviewed.

As a condition of submitting that type of application, districts were required to certify that they understood that there was no obligation on the part of the Board for future funding, that projects may or may not qualify in the future depending on what the rules and regulations are at the time.

So that certification does come in with those projects. So there is about $2 billion worth of applications on that list. In new construction, we have 259 applications totaling 1.3 billion in funds, and modernization is 383 applications with 683 million in funding requests.

Those amounts are as submitted by the districts because we have not verified these projects as they've not been processed.

So we wanted to just refresh everyone's memory on where the lists stand. They can be found in the back of the agenda as well.

However, we anticipate the need to come back to the Board with a discussion -- a policy discussion on how we
handle these projects because it's been a number of years. It's been four plus years for some of these projects, so some of the circumstances may have changed with these applications.

We don't know if the applications were valid at the time they were submitted. We don't know if we were to look at the eligibility today whether the circumstances would be the same. So we would propose to bring back an item to have that conversation at a future Board meeting.

With that, I'd be happy to answer any questions.

CHAIRPERSON ORTEGA: All right. Any questions at this time? Any public comment on this item? Okay. Seeing none, move on to the Legislative Update.

MS. KAMPMEINERT: Okay. And the Legislative Update can be found on page 118 and this is the annual item that we present to the Board. And it's a listing of bills that have passed in the past session -- the last session that may have an impact to the program or are related to the program.

And this year, we do not believe there's any Board action required as a result of any of these bills passing, but we did want to put them on your radar and on the radar of school districts that may be impacted because some of these topics relate to school construction.

CHAIRPERSON ORTEGA: Okay. Any questions on the
Legislative Update? Any public comment on this item? All right. Seeing none, back to Lisa.

MS. SILVERMAN: So we have the workload report.
CHAIRPERSON ORTEGA: Okay.
MS. SILVERMAN: And that's it.
CHAIRPERSON ORTEGA: All right.
MS. SILVERMAN: If you have any questions about the workload.
CHAIRPERSON ORTEGA: Any questions? No? All right. Any public comment on any of the items not on the agenda? Okay. Well, that concludes our business. We will -- I'll hold off on adjourning for a couple minutes to see if Mr. Nazarian is joining us, but you are free to go. Thank you, everyone.

(Off record)

MS. JONES: We'd like to know how you would vote on the Consent Calendar.

ASSEMBLYMEMBER NAZARIAN: Aye.
MS. JONES: And the Minutes?
ASSEMBLYMEMBER NAZARIAN: Aye.
MS. JONES: Okay. Thank you.
CHAIRPERSON ORTEGA: Okay. Thank you. Meeting's adjourned.
(Whereupon, at 4:38 p.m. the proceedings were adjourned.)
REPORTER'S CERTIFICATE

STATE OF CALIFORNIA   )
       ) ss.
COUNTY OF SACRAMENTO  )

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