

## STATE ALLOCATION BOARD AGENDA

Meeting Date: June 26, 2019

State Capitol  
Room 444  
4:00 p.m.

Revision date: June 24, 2019

### Tab 07 – Action Items

- Replace pages 261 – 263
- Insert pages 266-269

Thank you,

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REPORT OF THE EXECUTIVE OFFICER  
State Allocation Board Meeting, June 26, 2019

ADMINISTRATIVE COSTS OF THE SCHOOL FACILITY PROGRAM

PURPOSE OF REPORT

To present the State Allocation Board (Board) with the option to reserve available bond authority for the costs of the Office of Public School Construction (OPSC), California Department of Education (CDE), and the State Controller's Office (SCO) to administer the Board's programs.

DESCRIPTION

At the March 26, 2014 meeting, the State Allocation Board (Board) approved the reservation of bond authority for School Facility Program (SFP) administrative costs prior to the depletion of bond authority. The Board approved the reservation of bond authority in the amount of \$52.7 million over a five-year period.

In Fiscal Year (FY) 2019/2020 the bond authority reserved in March of 2014 for administration of the Board's programs will be exhausted. The adjustments are needed from Proposition 51 to reflect the additional bond authority necessary to align with the Governor's proposed Budget for 2019/2020.

Staff recommends reserving bond authority for OPSC for upcoming budget year 2019/2020 for administrative costs. In addition to the augmentation for the 2019/2020 administrative costs reservation, staff recommends a reservation for OPSC, CDE, and SCO for the three fiscal years from 2020/2021 through 2022/2023.

AUTHORITY

See Attachment A.

BACKGROUND

Administrative costs are funded from the general obligation bonds and school site utilization fees.

OPSC administrative costs include those related to OPSC functions, such as application processing, Board agenda publication, and appeals. In addition, there are post-application approval functions that are required of OPSC after the Board provides the initial unfunded approval. These include converting unfunded approvals to apportioned projects as a result of general obligation bond sales, processing fund releases, substantial progress reviews, grant agreements, K-12 audit support, financial hardship support, and various accounting functions.

CDE administrative costs include those related to the role of the School Facilities and Transportation Services Division (SFTSD) to review and approve school district sites and construction plans. SFTSD review begins when a school district plans to acquire a new school construction site. The review of construction plans by SFTSD focuses mainly on the educational adequacy of the proposed facility and whether the needs of students and faculty will be met. The review of construction plans is for new sites as well as for existing sites.

SCO administrative costs include those related to maintenance of the official State of California Book of Record for all accounting functions, disbursement of warrants to school districts, reviewing and approving local closeout audit reports.

## STAFF ANALYSIS/STATEMENTS

### Past Board Action

The Board previously reserved bond authority for future administrative costs in September 2001, August 2012, and March 2014. In all cases, the Board was concerned that bond authority would be depleted before a new statewide school facilities general obligation bond measures could be placed on the ballot. Therefore, in 2001, the Board reserved funds for administrative costs for the entire fiscal year 2002/2003, or until approximately seven months after a potential general obligation bond ballot measure. In 2012, the Board reserved funds for administrative costs for the 2012/2013 through 2014/2015 fiscal years to cover administrative costs beyond a potential 2014 bond measure. Lastly, in 2014, the Board reserved funds for administrative costs for 2015/2016 through 2019/2020 fiscal years.

Before 2012, administrative costs for a single fiscal year were charged to one program, such as new construction, modernization or Overcrowding Relief Grant. In 2012 and 2014, the Board elected to draw bond authority for administrative costs from multiple programs using a workload-based proration. Assuming workload would decline, the reservation of authority in 2014 assumed a continuous decline in administrative costs. As a result of Proposition 51 in November 2016, this decline did not occur as anticipated; therefore, this resulted in a shortfall in the reservation to the actual budget by \$4,347,750 (New Construction - \$1,863,321; Modernization - \$1,863,321; Career Technical Education - \$310,554; and Charter - \$310,554) for the 2019/2020 fiscal year. Upon Board approval, OPSC will reflect additional adjustments to bond authority on the August 28, 2019 Status of Funds to coincide with the Governor's proposed 2019/2020 Budget along with anticipated adjustments.

### Future Administrative Costs

Staff is requesting the Board consider reserving bond authority for administrative costs for three fiscal years from 2020/2021 through 2022/2023, because available bond authority is limited. This action would ensure that the administration of the Board's programs can continue.

Based on administrative costs proposed for the 2019/2020 fiscal year, staff is projecting \$51.7 million in bond authority is needed for administrative costs for the next three years from 2020/2021 through 2022/2023. As a result of the administration's proposal to continue using School Site Utilization Fees for OPSC administration costs of approximately \$4.0 million per year, there is a net need of \$39.7 million from SFP bond authority for the three subsequent budget years.

Pursuant to Education Code Section 17070.65, the Board has the authority to make any monies in the State School Facilities Funds available to the director of the Department of General Services (DGS) in the amounts that the Board determines necessary for DGS to facilitate the construction, modernization, reconstruction, or alteration of, or addition to, school buildings. Therefore, the Board has the ability to specify the program(s) from which it wishes to reserve bond authority for administrative costs for fiscal years 2020/2021 through 2022/2023. However, any monies reserved must also be approved for this purpose in the annual Budget Act.

STAFF ANALYSIS/STATEMENTS (cont.)

Staff proposes reserving bond authority from the following programs based on the originally approved bond allocations for Proposition 51.

Basis for Proration		
Program	Bond Authority	Percentage
New Construction	\$ 3,000,000,000.00	43%
Modernization	\$ 3,000,000,000.00	43%
Career Tech	\$ 500,000,000.00	7%
Charter	\$ 500,000,000.00	7%
Total Authority for Proration	\$ 7,000,000,000.00	100%

Net SFP bond authority needed for administrative costs:

~Annual Administrative Costs			
DGS/OPSC	CDE	SCO	Total
\$ 12,686,486.00	\$ 3,313,371.00	\$ 1,224,731.00	\$ 17,224,588.00

FY 2020/2021 through 2022/2023 Need	
Total FY 2020/2021 through FY 2022/2023 Need	\$ 51,673,764.00
Funded from School Site Utilization Fund	\$ (12,000,000.00)
Remaining SFP Authority Needed	\$ 39,673,764.00

Summary of reservation of bond authority by program and fiscal year.

Recommended Reservation of Bond Authority for FY 2020/2021 through 2022/2023				
Program	FY 2020/2021	FY 2021/2022	FY 2022/2023	Total
New Construction (43%)	\$ 5,667,680	\$ 5,667,680	\$ 5,667,680	\$ 17,003,040
Modernization (43%)	\$ 5,667,680	\$ 5,667,680	\$ 5,667,680	\$ 17,003,040
Career Technical Education (7%)	\$ 944,614	\$ 944,614	\$ 944,614	\$ 2,833,842
Charter School Facilities (7%)	\$ 944,614	\$ 944,614	\$ 944,614	\$ 2,833,842
	\$ 13,225,588	\$ 13,225,588	\$ 13,225,588	\$ 39,673,764

RECOMMENDATION

Approve the reservation of bond authority in the amount of \$39,673,764 for FY 2020/2021 through 2022/2023 for the administrative costs of OPSC, CDE, and SCO as shown in the tables above plus \$4,347,750 (New Construction - \$1,863,321; Modernization - \$1,863,321; Career Technical Education - \$310,554; and Charter - \$310,554) for the FY 2019/2020 shortfall and reflect the reservation in the August 2019 Status of Funds report.

REPORT OF THE EXECUTIVE OFFICER  
State Allocation Board Meeting, June 26, 2019

CAREER TECHNICAL EDUCATION FACILITIES PROGRAM  
ADDITIONAL FUNDING CYCLE(S)

PURPOSE OF REPORT

To present the State Board of Allocation (Board) with a recommendation for how to allocate the remaining \$250 million in Career Technical Education Facilities Program (CTEFP) funds.

DESCRIPTION

The Kindergarten through Community College Public Education Facilities Bond Act of 2016 (Proposition 51) provided the CTEFP \$500 million in bond authority. Upon final approval of the CTEFP projects for the fifth funding cycle in the amount of \$125 million, the available bond authority in the Proposition 51 CTEFP will be approximately \$250 million. Therefore, Staff is seeking the direction of the Board on how to move forward with allocating the remaining CTEFP funds.

AUTHORITY

Education Code (EC) Section 101122(a)(4) states: "The amount of five hundred million dollars (\$500,000,000) for facilities for career technical education programs pursuant to Article 13 (commencing with Section 17078.70) of Chapter 12.5 of Part 10 of Division 1 of Title 1."

SFP Regulation Section 1859.191 states in part:

- (a) The Board shall accept Approved Applications for Career Technical Education Facilities Project Funding and make apportionments as follows:
  - (1) All applications received in a six-month cycle will be processed and prioritized for career technical education funding in the manner described in Section 1859.194.
  - (2) The funding cycles are established as follows:
    - ...
- (C) At the discretion of the Board, subsequent funding cycles may continue every six months thereafter until the Career Technical Education Facilities Program funds are exhausted or other funds become available.

BACKGROUND

On November 8, 2006 the Kindergarten-University Public Education Facilities Bond Act of 2006 (Proposition 1D) took effect and established the CTEFP within the School Facility Program (SFP) and made \$500 million available for CTEFP projects. Due to the anticipated high interest in the program and to make it equitably available to as many applicants as possible statewide, the Board established funding cycles with specific amounts of funding allocated to each cycle. A funding order was also established to ensure that the funds were divided among different geographic locales and service regions. Within the first two funding cycles, funds were distributed by Service Region, and projects were funded in order of the California Department of Education (CDE) score and geographical locale. For the third and any subsequent cycles, regulations currently prescribe that projects will be ordered by CDE score and geographic locale.

From 2006 to 2014, the Board held three funding cycles where \$466.7 million of Proposition 1D funds were allocated to construct new facilities, modernize existing facilities, or purchase equipment for career technical education programs. The first cycle had \$350 million allotted and the second had \$150 million allotted. At the end of the second cycle, sufficient funds remained to hold a third funding cycle, which was oversubscribed.

BACKGROUND (cont.)

Proposition 51 provided \$500 million in bond authority for CTEFP to continue the program. In August 2017, the Board approved an option to allocate a maximum of \$125 million for the fourth CTEFP funding cycle and \$125 million for the fifth CTEFP funding cycle. The fourth funding cycle began in November 2017, and the fifth funding cycle began in October 2018.

Cycle	CDE Submittal Date	CDE Score Release Date	OPSC Submittal Date	SAB Date
Cycle 4	November 29, 2017	February 14, 2018	February 21, 2018	May 23, 2018
Cycle 5	October 19, 2018	February 8, 2019	February 15, 2019	May 22, 2019

Of the 175 applications submitted to OPSC in the fourth funding cycle, 75 applications (43 percent) received funding. OPSC received 220 applications for the fifth CTEFP funding cycle, of which 72 applications (32 percent) will have been funded upon approval of the at the close of this funding cycle.

Cycle	Number of Applications Received	Amount Requested	Number of Applications Funded	Number of Applications Returned
Cycle 4	175	~\$408 million	75	100
Cycle 5	220	~\$405 million	72	148

STAFF ANALYSIS/STATEMENTS

Approximately \$250 million currently remains in Proposition 51 CTEFP bond authority. In order to allocate the remaining funds, the Board needs to establish an additional funding cycle(s).

**Stakeholder Feedback**

At the May 22, 2019 Board meeting, stakeholders from several school districts provided feedback on the allocation of the remaining Proposition 51 CTEFP bond authority. These stakeholders expressed interest in two concepts: 1) one final funding cycle for the remaining \$250 million, or, 2) for the Board to immediately release a portion of the remaining bond authority to fund high scoring applications that were not funded during the fifth funding cycle and then establish a future funding cycle to release all remaining funds.

Stakeholders stated that much time and effort was dedicated toward creating high quality applications for the fifth funding cycle and that it would therefore be redundant to rescore these applications. Furthermore, the stakeholders stated that an expedited release of the remaining CTEFP bond authority would prevent school districts from encountering increasing construction costs further in the future. Additionally, stakeholders opined that remaining funds should be released in one larger funding cycle so that a larger number of higher scoring applications could receive funding.

Staff researched the ability to provide additional funding for the fifth funding cycle, however, the Board's action in June 2017 set a maximum amount of \$125 million for the funding round, and indicated the remaining balance would be allocated in future rounds. Staff does not believe the past action allows for the flexibility to provide additional funds to the fifth funding cycle.

However, Staff does agree that one funding cycle for the remaining \$250 million makes sense based on the demand for the program and the number of applications with high scores. Holding one final funding cycle (the sixth cycle) with all remaining funds would result in reaching more applications with lower (though passing) scores and, subsequently, more school districts from all locale codes being funded without the need to apply again in a seventh funding cycle.

### STAFF ANALYSIS/STATEMENTS (cont.)

This proposal will also help address concerns previously expressed by stakeholders that smaller funding cycles in conjunction with the current funding order results in applications with lower qualifying scores from Rural locales receiving funding before higher scoring applications from Suburban and Urban locales due to the low number of applicants in the Rural locale. Staff is preparing for stakeholder meetings beginning in July to discuss the funding order regulations that also contribute to this issue.

#### **Scoring**

Staff would like to clarify that to apply for a new funding round, Applicants will not need to submit their full grant applications for a new score from CDE as long the application, project scope, and project budget remain unchanged. If there are changes to the application, the applicant would need to go through the scoring process. If the application is unchanged and does not require a new CDE score, applicants can submit their application to OPSC at any time prior to the close of the submittal period established for the funding cycle.

#### **One Round of Approximately \$250 million (Sixth Funding Cycle)**

Staff recommends the establishment of a single funding cycle to address the remaining approximately \$250 million in CTEFP funds. Staff further recommends that the Board consider the retention of all applications at the end of the sixth funding cycle in order to allow the Board to continue down the funding order to allocate any future authority that may return to the program, such as through loan repayments and/or project rescissions. The recommendation assumes that the sixth funding cycle will include any residual bond authority remaining in both Propositions 1D and 51, and will be reduced by any administrative costs of the program.

If the Board adopts the recommendations below, OPSC and CDE will work together to determine the timelines associated with the \$250 million sixth cycle, and announce those timelines as part of the August SAB agenda.

### RECOMMENDATION

1. Allocate the remaining approximately \$250 million in CTEFP funds to fund eligible projects received in the sixth CTEFP funding cycle.
2. Declare that the applications remaining in the sixth funding cycle be retained through December 2021 to enable the Board to continue awarding unfunded CTEFP projects, provided additional bond authority returns. Any applications that do not receive an unfunded CTEFP approval by December 31, 2021 will be returned without further Board action.

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