

REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, December 12, 2007

CLASS B CONSTRUCTION COST INDEX – EIGHT CALIFORNIA CITIES

PURPOSE OF REPORT

To review the current suitability of the Marshall and Swift (M&S) Eight California Cities Class B Index in order to determine the appropriate index to use for the annual adjustment to the School Facility Program (SFP) grants.

DESCRIPTION

In January of each year, the SFP grant amounts are adjusted to reflect a particular Class B Construction Cost Index (CCI). Prior to January 1, 2005, base grant amount adjustments were based on the M&S Ten Western States Index. At the March 2005 meeting of the State Allocation Board (SAB), Staff recommended that the Board adopt the M&S Eight California Cities Class B CCI for the 2005 Grant Amount Adjustment. This recommendation was based on Staff research that demonstrated that this index more appropriately aligned the base grant amount adjustments with the California bidding climate and escalating construction industry costs.

In response to Staff recommendations, the SAB approved the index of 1.3 for the M&S Eight California Cities Class B CCI, which represented a 12.07 percent increase for use on SFP applications approved on or after January 1, 2005. The Board also recommended that the Class B CCI for the Eight California Cities be utilized for a period of two years (through January 2007), after which Staff will review the M&S Eight California Cities CCI in order to determine that it is still the most appropriate index to utilize for the January 2008 CCI grant adjustment.

AUTHORITY

Pursuant to Education Code Section 17072.10(b), "The board shall annually adjust the per-unhoused-pupil apportionment to reflect construction cost changes, as set forth in the statewide cost index for class B construction as determined by the board."

As defined in Regulation Section 1859.2, the Class B CCI is a construction factor index for structures made of reinforced concrete or steel frames, concrete floors, and roofs, and accepted and used by the Board.

STAFF COMMENTS

The SFP regulations require that the annual grant adjustments reflect construction costs set forth in only Class B indexes, and only M&S provides Class B construction cost indexes. Staff contacted M&S regarding the possibility of purchasing data for additional cities in California, and determined that there is no historical data for California cities other than those included in the Eight California Cities Class B Index, which measures 12 building material types and six trade labors of the eight following cities: Bakersfield, Eureka, Fresno, Los Angeles, Riverside, Sacramento, San Diego and San Francisco.

It is important to note that all other Class B Indexes include cities from other states (or other countries). Including additional data from any of those cities could only serve to dilute the California-specific data included in the Eight California Cities Index. As the M&S Eight California Cities Index most closely corresponds to the school construction costs in California, Staff concluded that this index sufficiently addresses the unique building environment in California.

(Continued on Page Two)

STAFF COMMENTS (cont.)

Attachment A shows the projected approximate CCI increase/decrease for each of the above mentioned Class B indexes. Attachment B is a graph illustration of the cumulative inflation percentages of the M&S Eight California Cities Class B Index compared to the Ten Western States Class B Index. Attachment C is a bar chart of the yearly inflation rates of the M&S Eight California Cities Class B Index compared to the Ten Western States Class B Index. The data shown on the attachments are calculated using actual data for both indices. If the SAB adopts the M&S Eight California Cities Class B CCI, the 2008 grant increase would be 2.07 percent, which is less than the projected grant increase using the M&S Ten Western States Index which is 3.19 percent.

RECOMMENDATION

Adopt the M&S Eight California Cities Class B CCI for to be used for annual grant adjustments until the SAB directs otherwise.

BOARD ACTION

In considering this item, the Board approved Staff's recommendation as modified to adopt the Marshall & Swift Ten Western State Class B Construction Cost Index for the 2008 adjustment. The Board requested that the issue be revisited in one year. In addition, the question was raised as to whether an appropriate index existed that measures the cost of school construction versus other types of construction.

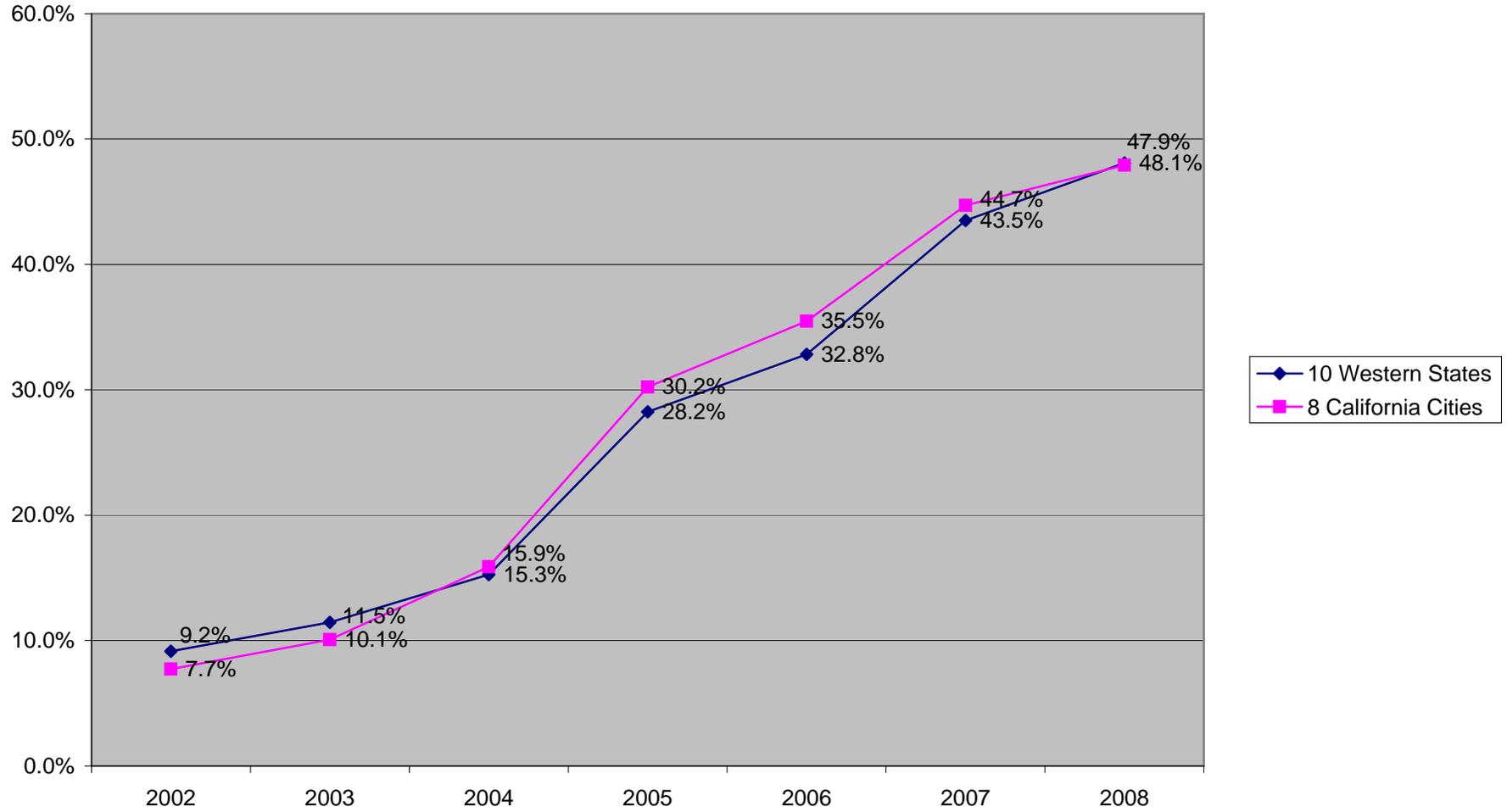
ATTACHMENT A
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PROJECTED 8 CALIFORNIA CITIES GRANT INCREASE VS. 10 WESTERN STATES GRANT INCREASE

		Regulation Section	Current [2007] Grants - 8 California Cities	2008 Grants - 8 California Cities	Grant Increase - 8 California Cities	Projected 2008 Grants - 10 Western States	Projected Grant Increase - 10 Western States
New Construction	Elementary	1859.71	\$8,081	\$8,248	\$167	\$8,339	\$258
	Middle	1859.71	\$8,546	\$8,723	\$177	\$8,819	\$273
	High	1859.71	\$10,873	\$11,098	\$225	\$11,220	\$347
	Special Day Class – Severe	1859.71.1	\$24,066	\$24,564	\$498	\$24,834	\$768
	Special Day Class – Non-Severe	1859.71.1	\$16,095	\$16,428	\$333	\$16,608	\$513
Modernization	Elementary	1859.78	\$3,262	\$3,330	\$68	\$3,366	\$104
	Middle	1859.78	\$3,450	\$3,521	\$71	\$3,560	\$110
	High	1859.78	\$4,516	\$4,609	\$93	\$4,660	\$144
	Special Day Class - Severe	1859.78.3	\$10,391	\$10,606	\$215	\$10,722	\$331
	Special Day Class – Non-Severe	1859.78.3	\$6,953	\$7,097	\$144	\$7,175	\$222
	State Special School – Severe	1859.78	\$17,325	\$17,684	\$359	\$17,878	\$553

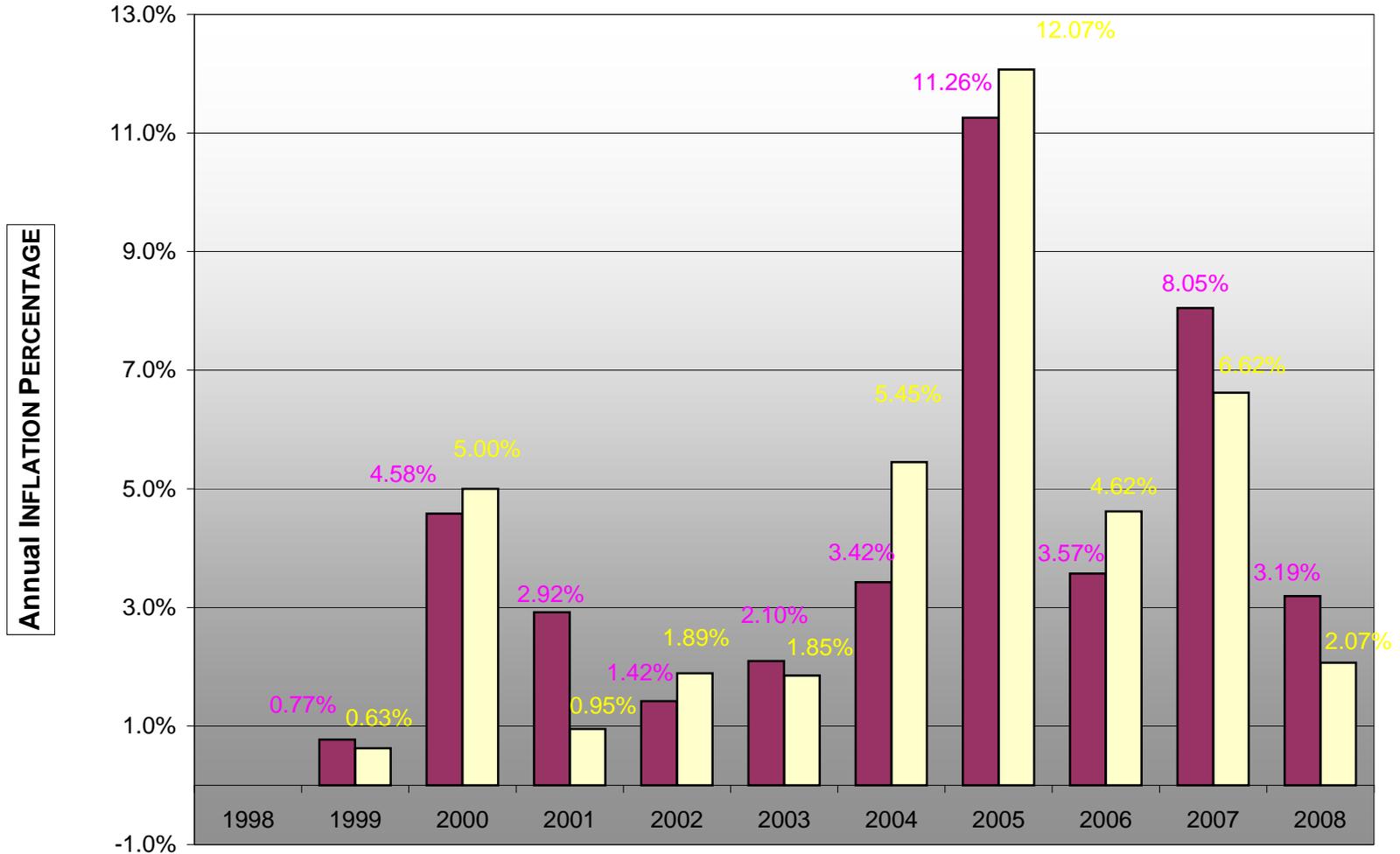
ATTACHMENT B
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CUMULATIVE CONSTRUCTION COST INDEXES COMPARISON



Attachment C
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ANNUAL CONSTRUCTION COST INDEXES



	Jan-98	Jan-99	Jan-00	Jan-01	Jan-02	Jan-03	Jan-04	Jan-05	Jan-06	Jan-07	Jan-08
■ M&S CCI % 10 W. STATES CLASS B	0.0%	0.77%	4.58%	2.92%	1.42%	2.10%	3.42%	11.26%	3.57%	8.05%	3.19%
□ M&S CCI % 8 CAL. CITIES CLASS B	0.00%	0.63%	5.00%	0.95%	1.89%	1.85%	5.45%	12.07%	4.62%	6.62%	2.07%