STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, Governor

STATE ALLOCATION BOARD
1130 K Street, Suite 400
Sacramento, CA 95814

IMPLEMENTATION COMMITTEE MINUTES

June 2, 2006

Legislative Office Building
Sacramento, CA

Members Present

Mavonne Garrity, SAB
Kathy Hicks, OPSC
Fred Yeager, CDE
Chad Rohrs, DOF
Constantine Baranoff, SSD
Lyle Smoot, LAUSD (Alternate for Mark DeMan)
Dennis Bellet, DSA
Eric Hall, CASH
Dennis Dunston, CEFPI
Peggy Reyes, CASBO
Gary Gibbs, CBIA
Cathy Allen, CCSESA (Alternate for William Cornelison)
Jay Hansen, SBCTC

Members Absent

Brian Wiese, AIA
Debra Pearson, SSDA

DISTRIBUTION OF SITE SALE PROCEEDS

The topic was introduced by Mavonne Garrity and presented by Office of Public School Construction (OPSC) staff member Kelly Long.

The State Allocation Board (SAB) requested the OPSC to make recommendations and establish a policy to capture proceeds from sale of sites funded by the SAB. This item was initially presented at the May Implementation Committee meeting. The Committee requested that Staff return with the item for further discussion.

The OPSC Staff reviewed the prior discussion and reiterated their belief that the SFP and the Unused Site Program do not adequately track the sale of sites. Currently, there are no provisions under the SFP to monitor the status of property after the final expenditure audit has been completed for a project. The Unused Site Program may not track sites purchased under the SFP since sites may be removed from the Unused Site Program for reasons inconsistent with the intent of the SFP, such as administrative purposes, adult education, preschool or child care. Once the sites are removed from the unused list, they are not tracked and their disposition may go unreported.

The Committee and audience again doubted that the scale of the issue necessitated additional regulations. Concerns were voiced that a “one-size-fits-all” solution was not appropriate and the proposed action seemed like a reversion to the Lease-Purchase Program (LPP). There was a desire to keep any needed changes as simple as possible and a preference to do without regulations, if possible.

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Staff acknowledged the desire to avoid a cumbersome tracking system and agreed to further explore the ability to do so within existing programs. A recommendation was made that if a district has its final expenditure audit and has purchased a site, the site might be reported annually, perhaps on revised forms, which might be achieved administratively.

Several specific issues raised at the previous presentation were addressed by Staff:

- The option of imposing a lien on property acquired under the SFP as a mechanism to track its disposition will not be pursued.

- Prior recommendations required a district to return the site apportionment, plus accrued interest, if the district acquired property but failed to use it for school purposes within five years. Responding to concerns about adverse impacts to a district's finances, it was recommended that recovery of the State contribution occur upon sale of the property by the district.

- Staff clarified that "interest" returned to the State means the interest gained on the State apportionment while deposited in the County School Facility Fund (Fund 35), consistent with the interest calculation for all SFP audits.

- The question of property being sold at a loss was raised during the previous discussion. Staff proposed that the State would proportionately reduce the amount due to the State if property was sold at a loss, provided the district could demonstrate a compelling reason for the sale. However, some members of the Committee questioned whether the State should, or legally could, recoup anything less than the original State contribution. Staff agreed to seek legal guidance regarding this potential bond issue.

Staff restated the steps to capture site sale proceeds and presented revised scenarios and actions based upon the use or non-use of a school site for its intended purpose. In regard to the potential actions, the Committee and audience wanted to make certain charter schools are subject to the same requirements of the school districts.

One proposed recommendation required that profit from the sale of a site purchased with SFP assistance be applied to a future project within five years of the site sale. It was suggested that the five-year threshold window to offset the profit should be reduced to three years, consistent with the timeframe for Financial Hardship review.

Additional discussion regarding the State share of proceeds pondered situations in which the apportionment was less than the actual purchase price. Staff recognized that this might occur when the size of an acquired site surpassed the CDE recommended site size or where the purchase price exceeded the appraised value.

Staff suggested that any recommendation to the SAB would indicate that the occurrences of site sales are relatively limited. Staff committed to further explore coordination with the Unused Site Program and present findings at the next Implementation Committee meeting.

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ADDITIONAL GRANT FOR GENERAL SITE DEVELOPMENT

The topic was introduced by Mavonne Garrity and presented by OPSC staff member Karen Sims.

At the May SAB meeting, Staff presented several options on how to address the deficiencies between the LPP and the SFP funding methods. The SAB then requested the OPSC to make recommendations and establish regulations to provide an additional grant for general site development.

The proposed regulations as presented to the Implementation Committee included an increase of six percent to the new construction base grant allowance for elementary and middle schools and a 3.75 percent increase for high school projects. Only projects that are additions to existing sites acquiring acreage or new school projects are eligible. Eligible projects will also receive $19,200 per new acre being acquired. This amount will be adjusted annually based on the change in the Class B Construction Cost Index (CCI). Adjusted to the 2006 CCI, the amount is $26,211 per acre.

Two main issues of concern stated by some members of the Committee and audience included that the allowance is only being provided for new schools and additions that include new acreage. The main argument was that addition projects that are not acquiring property may also incur expenses for general site development and therefore should at least be entitled to receive the percentage increase. However, the item as presented is consistent with the SAB's request since the full analysis on the grant adequacy is not yet complete.

The second issue was the sunset clause. Concern was expressed that if the general site allowance was suspended as of January 1, 2008, and the SAB did not act immediately on an increase as provided for in AB 127, there could possibly be a period of time when the projects are not adequately funded. However, the OPSC plans to complete its full analysis of the adequacy of the new construction grant and the impact of AB 127 no later than June 2007.

The OPSC recognized the various concerns and agreed it would note the concerns in its item presented at the June SAB.