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

GRANT ADEQUACY UPDATE

PURPOSE OF REPORT

To provide an update on the study on the adequacy of the new construction grant.

BACKGROUND

Assembly Bill (AB) 127, Chapter 35, Statutes of 2006 (Perata/Nunez) provided an increase to the new construction grant of seven percent for elementary and middle school projects and four percent for high school projects beginning July 1, 2006. AB 127 also authorizes the State Allocation Board (SAB), beginning January 1, 2008, to annually increase the new construction per pupil base grant amount by up to six percent, or reduce it, by an amount determined based on an analysis of the current costs to build a school. Due diligence must be exercised in making this determination since an increase or decrease in the base grant can increase the spend rate of the bonds by tens of millions of dollars per year or negatively affect the ability of school districts to build schools.

Collecting the Essential Data – the Project Information Worksheet
Since the Passage of AB 127, Staff has been diligently developing a means of capturing data to conduct the analysis required by statute. Staff has worked with the Grant Adequacy Ad Hoc Committee and the Implementation Committee since September of 2006 to create the Project Information Worksheet (PIW) – incorporating numerous comments regarding the type of data to collect and the best method of data capture. This worksheet was then piloted to districts for their input and feedback. The PIW was presented to the Board at the July, August, and September 2007 meetings and was approved by the Board at its September 2007 SAB meeting. Between July and its final adoption, the document was revised no fewer than 24 times – with each revision streamlining the document further. The PIW and the corresponding regulations have not been approved by the Office of Administrative Law and again are being presented to the Board later in this agenda due to public comments submitted during the regulatory process.

Methodology
In order to meet the deadline for the statutorily required analysis, the OPSC contracted with the Macias Consulting Group (MCG) to develop a methodology and complete an independent grant adequacy study. The MCG developed its methodology in consultation with the Legislative Analyst's Office, the Division of the State Architect, the Office of Statewide Audits and Evaluations, and the education section of the Department of Finance. The MCG has maintained regular methodology meetings with these advisors. The methodology was then presented at a publicly noticed open meeting on October 5, 2007. At the meeting, members of the Ad Hoc Committee, the Implementation Committee, and the public were given an opportunity to comment on the methodology. The methodology was posted on the Office of Public School Construction website and the MCG also accepted written comments on the methodology until October 10, 2007. The MCG presented its methodology to the SAB at the October 2007 meeting. Since that presentation, the MCG utilized actual soft cost data from OPSC close-out audits to adjust the McGraw-Hill database to account for project soft costs, such as architect fees, etc. The MCG has continued its study on grant adequacy and will present its final findings at a future meeting.

Providing Transparency
The Legislative Analyst's Office, as the nonpartisan fiscal and policy advisor to the Legislature, will be provided with the data sets so that an independent party can validate the study's findings without violating licensing agreements.

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AUTHORITY

Education Code (EC) Section 17072.11(a)(3) states, "The board shall conduct an analysis of the relationship between the per-unhoused-pupil grant eligibility determined under this article and the per-pupil cost of new school construction for elementary, middle, and high school pupils."

Education Code (EC) Section 17072.11(b) states, "On or after January 1, 2008, the board shall increase or decrease the per-unhoused-pupil grant eligibility by amounts it deems necessary to cause the grants to correspond to costs of new school construction, provided that the increase in any fiscal year pursuant to this section shall not exceed 6 percent."

STAFF COMMENTS

At the October 2007 SAB meeting, the Board requested that an update on grant adequacy study be placed in this section of the agenda for discussion. As previously mentioned, the grant adequacy study is ongoing and the MCG has not yet completed its analysis; therefore, this item does not contain a recommendation.

BOARD ACTION

In discussing this item, the Board requested that Staff continue to keep open lines of communication regarding the process being utilized and to provide updates to the Board. Additionally, the Board requested Staff to follow up with the County Superintendent of Schools for purposes of conducting a separate study on the costs to construct county schools.