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CALIFORNIA STATE ALLOCATION BOARD
NEW CONSTRUCTION SUBCOMMITTEE
PUBLIC MEETING

DEPARTMENT OF FINANCE
915 L STREET, REDWOOD ROOM
SACRAMENTO, CALIFORNIA 95814

DATE: WEDNESDAY, JANUARY 11, 2012
TIME: 3:38 P.M.

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APPEARANCES

MEMBERS OF THE SUBCOMMITTEE PRESENT:

ASSEMBLY MEMBER JOAN BUCHANAN, CHAIR

SENATOR ALAN LOWENTHAL

ASSEMBLY MEMBER CURT HAGMAN

MEMBERS OF THE SUBCOMMITTEE NOT PRESENT:

ESTEBAN ALMANZA, Chief Deputy Director, Department of General Services, designated representative for Fred Klass, Director, Department of General Services

REPRESENTATIVES OF THE STATE ALLOCATION BOARD PRESENT:

LISA SILVERMAN, Acting Executive Officer

P R O C E E D I N G S

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3 CHAIRPERSON BUCHANAN: Okay. I'd like to call the
4 meeting to order and note that we do have a quorum. We have
5 myself, Assembly Member Hagman, and Senator Lowenthal.

6 This meeting sort of takes off where the last one
7 ended. We went over the last meeting and many of you were
8 here, so I'm not going to go into depth talking about it
9 because we will be reviewing some of the numbers.

10 But at the last meeting, we were taking a look at
11 the new construction funds based on the current burn rates,
12 how long we expected them to last, what options would be for
13 hopefully extending out the New Construction Program. We
14 had a number of questions that we asked staff to research
15 and come back to us with more information.

16 So with that, I'm going to ask Lisa to start out
17 with the presentation on options for extending the available
18 bond authority.

19 MS. SILVERMAN: Yeah. So I appreciate you
20 covering the overview and so we have a number of charts on
21 Tab 2 which starts on page 4 and Michael Watanabe will
22 handle this discussion.

23 CHAIRPERSON BUCHANAN: Okay.

24 MR. WATANABE: So we have a variety of options
25 laid out on this and these are kind to generally answer --

1 (Discussion re: microphones)

2 MR. WATANABE: So we're on page 4. After the
3 December 31st Board meeting, we had 191.8 million remaining
4 in new construction bond authority and 370.4 million in
5 modernization bond authority.

6 So after our last Subcommittee meeting, what the
7 Board wanted to know is should we regulate the process and
8 applications to the Board to manage this remaining bond
9 authority.

10 The chart you see on page 4 is where we are at now
11 and where we project to be based on in-house workload. With
12 that, we would expect to run out of new construction bond
13 authority in April of 2012 and modernization bond authority
14 in approximately September 2012. That's based on in-house
15 workload for January, February, and March and the April
16 drawdown is based on our last 12-month average of about
17 30 million per month.

18 The modernization authority is based on an average
19 drawdown over the last 12 months of about 50 million per
20 month.

21 What the chart on page 5 shows you is the result
22 of the Governor's budget that was released last week. In
23 that proposed 2012-2013 budget, the Governor proposed
24 transferring all remaining authority in the Overcrowded
25 Relief Grant Program to new construction.

1 At this time, there is 201.9 million remaining in
2 the Overcrowded Relief Grant Program that could be
3 transferred. This chart reflects that transfer. Assuming
4 the budget's approved in June, the transfer would happen at
5 the July Board and we would be able to extend authority out
6 to January 2013.

7 The first option before the Board -- or before
8 this Committee to extend the new construction bond authority
9 is to transfer critically overcrowded school authority to
10 the new construction bond program.

11 Historically any residual authority in that
12 program has been transferred to new construction. Sorry.
13 One minute. Bear with me one minute. What's the ORG
14 number?

15 MS. SILVERMAN: I have it.

16 MR. WATANABE: Correction. After the -- after
17 January, we'll have 250 million in ORG that will be
18 transferred to new construction. The 201.9 million I
19 pointed out is for the COS program that's sitting out there
20 in preliminary apportionments. Those projects have until
21 April 2012 to convert their projects to unfunded approvals.

22 With this transfer -- the chart on page 6 reflects
23 that transfer.

24 CHAIRPERSON BUCHANAN: So that assumes none of
25 them convert their authority.

1 MR. WATANABE: That's correct.

2 CHAIRPERSON BUCHANAN: Okay.

3 MR. WATANABE: What the chart on page 7 shows is a
4 combination of the COS transfer and the ORG transfer to new
5 construction.

6 If we continue our average processing of
7 30 million per month, that would take us to August 2013, if
8 we get all of that authority -- so 251.3 million in ORG and
9 201.9 million in COS.

10 Option 1(b) is another option before the Board to
11 manage the authority that's remaining. That would take us
12 out to January 2015 basically through the 2014 calendar
13 year.

14 In order to do so, this option proposes taking
15 approvals to the Board every six months or to coincide with
16 when the priority in funding certification rounds are.

17 If we were just to transfer the COS authority,
18 we'd have to only approve 35 million per month every six
19 months. What page 9 will show you with ORG authority is we
20 can actually double that to about 75 million per month.

21 The other considerations before the Committee are
22 on page 10 and that's to keep a reservation of bond
23 authority for closeout projects. These are for projects
24 that were already apportioned but have the ability to
25 receive grant increases for eligible adjustments such as

1 site acquisition and hazardous cleanup.

2 Another option is to keep a reservation of bond
3 authority for closeout projects for facility hardships. As
4 of today, the Board has three approved -- conceptual
5 approvals for three facility hardship projects with an
6 estimated need of 24 million. At this time, none of these
7 projects have come in with applications for funding and the
8 due dates they have to do that are listed in the second
9 column there.

10 On average over the last three years, the Board
11 has approved 31.8 million in unfunded approvals for facility
12 hardship projects. And those are the considerations for the
13 Committee right at this moment.

14 CHAIRPERSON BUCHANAN: Okay. Does anybody have
15 any questions?

16 ASSEMBLY MEMBER HAGMAN: Just more a process I
17 guess for me. Right now it's proposed in the budget to
18 consolidate some of these bond funds to drag it out.
19 Obviously the Board would decide how to divvy up that
20 dollars, what kind of schedule, but we kind of need to know
21 what the pot is.

22 One of my concerns -- and maybe it's just a little
23 bit last three years of budgeting -- is if that's a trailer
24 bill within the budget, it may be get lost in the bigger
25 project scenes and I'm hopeful that maybe with the

1 recommendation of the Board, maybe we could pull that out at
2 least two-thirds anyway, put an urgency, and get the shell
3 going quickly and have that not be part of the bigger budget
4 issue and then know what -- if anyone's heard anything from
5 a perspective I don't have. I think that keeps it simple
6 that way too.

7 SENATOR LOWENTHAL: I'm a little uncomfortable
8 because since our last meeting, the Governor has come out
9 with his proposal and his proposal is somewhat similar.
10 It's a little different.

11 I think that the Legislature needs to discuss that
12 even before the Board takes any action here.

13 ASSEMBLY MEMBER HAGMAN: Correct.

14 SENATOR LOWENTHAL: I am not in to personally
15 supporting actions until I vote on them on the floor of the
16 Legislature. I do not want to --

17 ASSEMBLY MEMBER HAGMAN: Correct.

18 SENATOR LOWENTHAL: -- to have my hands -- you
19 know, so I'm --

20 ASSEMBLY MEMBER HAGMAN: Well --

21 SENATOR LOWENTHAL: -- juxtaposition of events
22 is -- right now is with this now being put on -- and in many
23 ways many similar kinds of issues that we've raised, it just
24 complicates it for me at this moment.

25 ASSEMBLY MEMBER HAGMAN: Um-hmm.

1 SENATOR LOWENTHAL: And so I'm just not sure
2 what's the best way to proceed --

3 ASSEMBLY MEMBER HAGMAN: Well, I think --

4 SENATOR LOWENTHAL: -- except that I feel a little
5 uncomfortable.

6 ASSEMBLY MEMBER HAGMAN: Concurrently, I mean you
7 have the budget -- the Governor's budget which the
8 Legislature's going to take apart and work on separately.
9 We could have a separate bill that could be, you know,
10 looked at --

11 SENATOR LOWENTHAL: Um-hmm.

12 ASSEMBLY MEMBER HAGMAN: -- publicly noticed and
13 go through normal process even with the urgency on it.

14 SENATOR LOWENTHAL: Absolutely.

15 ASSEMBLY MEMBER HAGMAN: And we could still have
16 our deliberations on the SAB Board as far as
17 recommendations. As it gets to that stage for committee
18 hearings and such, you know, we may have a recommendation
19 from the Board because the Board includes more than just the
20 Legislature --

21 SENATOR LOWENTHAL: That's --

22 ASSEMBLY MEMBER HAGMAN: -- as far as where to go.
23 I think the devil is in the details of that and
24 qualification is in who does what and what projects would
25 qualify and then -- but I'm almost like uncomfortable trying

1 to pick a burn rate recommendation or any kind of summary on
2 that so we know what we're dealing with as far as the pie
3 goes and that is a legislative act that will have to be gone
4 through that process.

5 Those are my initial thoughts. I like the concept
6 personally of trying to extend our monies to last a little
7 longer. I think if we don't -- I think trying to do
8 something this November makes it very difficult with
9 everything else on the ballot and the type of our economy
10 right now and I think there is -- with as much money as we
11 have put out the last four or five years, hopefully there is
12 a year or two of slowing things down a little bit to extend
13 it until we have a little clearer path where we're going.

14 SENATOR LOWENTHAL: I like the concept.

15 ASSEMBLY MEMBER HAGMAN: So generally I like the
16 concept which is -- it's going to be fun for you guys to
17 figure out those details as far as what goes in it.

18 CHAIRPERSON BUCHANAN: Well, you know, we all know
19 that when you're budgeting the sooner you make decisions,
20 the easier it is to make them because the longer you delay
21 and the more you -- the more money you spend and we've seen
22 this with the State's general fund budget -- that the
23 tougher it is as -- and I -- and this is -- transferring the
24 ORG money would require a two-thirds vote of the Legislature
25 and I wouldn't want -- I'd like to think that we could work

1 in a bipartisan way to preserve this program and not have
2 that vote move into the budget process in June and
3 potentially with either side being held hostage to other
4 issues.

5 I think it's important that we take action on it.
6 I think the Governor's made it very clear, you know, that he
7 wants a clean ballot in November so he can get his temporary
8 revenues extended and that means figuring out how to extend
9 this program.

10 Now, I understand the Legislature needs to act,
11 but I also think it would be powerful if there were some
12 kind of recommendation from the State Allocation Board to
13 say given the Governor's direction, we believe this is --
14 you know, our concurrence that this is the best way to move
15 forward and I think it'd be good in that regard if we could
16 come to some kind of agreement to have a bipartisan
17 approach, put it on the floor, and hopefully get the support
18 of everyone in both houses.

19 So that's all I would, you know, ask that we --

20 ASSEMBLY MEMBER HAGMAN: And also as far as
21 between now and then, because then takes a while even on a
22 fast track, the language and further hearings and get both
23 sides of the house and back out to the Governor's desk, what
24 kind of direction to staff as far as trying to meter your
25 spooning that money out. There's obviously projects in the

1 works and again if we don't have some kind of indication
2 from this Board of where you're going, how would all the
3 users of that money know what to apply for, how fast do they
4 start getting their projects in or not, and for their
5 budgeting purposes.

6 I think the safest thing is to plan for the worst
7 case but hope for the best case. You know, start metering
8 out the best we can until we get this thing pushed through.

9 CHAIRPERSON BUCHANAN: So maybe what we can do is
10 move onto the other topics that we asked be brought back and
11 then in conclusion -- I think we have people who want to
12 speak. We could maybe see if we have some kind of consensus
13 on the direction that we want in terms of moving forward.

14 MR. MIRELES: The next section is a discussion on
15 program eligibility, beginning on page 11. At the last
16 meeting, staff was asked to bring back information to
17 discuss the eligibility requirements for the program.

18 We put together information in regards to actual
19 enrollment, just the history of actual enrollment, projected
20 enrollment, and we have some comparisons from projected
21 enrollment versus actual enrollment.

22 There's also a couple of policy questions that we
23 have to assist in the discussion. The first is whether the
24 Committee wants to conduct a multiple-step eligibility
25 review process.

1 Basically what that means is eligibility review
2 when the application is submitted for approval gets placed
3 on the unfunded list and then should there be another review
4 before an apportionment.

5 And the second question, just a follow-up
6 question, whether that discussion wants to be -- that the
7 Committee wants to bring it forward for the full membership
8 of the SAB.

9 So to start the discussion, we have some
10 information on the actual statewide enrollment. We pulled
11 the information from the California Department of
12 Education's Data Quest website to take a look at the
13 enrollment details for the 1997-'98 enrollment year compared
14 to the 2010-2011 enrollment year.

15 And if we just look at -- this is listed out by
16 county. We have the details on page 12. But the largest
17 enrollment decrease by a county was 73.6 percent. The
18 largest enrollment increase by a county was 48.9 percent.

19 If you just take a look at the statewide
20 enrollment percent changes again between 1997-'98 enrollment
21 year versus the 2010-2011 enrollment year, that was a
22 statewide change of 8.6 percent.

23 If you look further at the changes by county,
24 there was a negative .5 percent change per county and again
25 this is actual enrollment. This is just to give the

1 Committee a sense of what's happened over the years in terms
2 of what's being reported to the Department of Education and
3 is reflected on their Data Quest website.

4 SENATOR LOWENTHAL: You say the statewide
5 enrollment percentage change. Are you saying that between
6 1997-'98 and 2010-2011, overall there's 8.6 percent more
7 students --

8 MR. MIRELES: That's correct, Senator.

9 SENATOR LOWENTHAL: -- overall.

10 MR. MIRELES: Yes.

11 SENATOR LOWENTHAL: But the average -- even though
12 there's an 8.6 percent increase --

13 MR. MIRELES: Um-hmm.

14 SENATOR LOWENTHAL: -- if you look at all the
15 counties and you average, there's an actual loss of a half
16 of 1 percent.

17 MR. MIRELES: That's correct. Yes.

18 SENATOR LOWENTHAL: Intuitively, that doesn't make
19 sense, but I understand --

20 MR. SAVIDGE: Well, it depends on the size of the
21 county --

22 SENATOR LOWENTHAL: Well, yeah. That's right.
23 That's right. We can't assume that all counties are the
24 same size.

25 CHAIRPERSON BUCHANAN: No. It's -- and then if

1 you look at this chart, you see those. I mean it's --

2 SENATOR LOWENTHAL: -- the giant counties --

3 CHAIRPERSON BUCHANAN: I mean what it really says
4 is that growth is uneven in the State of California.

5 SENATOR LOWENTHAL: Right.

6 MR. MIRELES: We also have some information in
7 regards of projected enrollment and this information was
8 gathered from the Department of Finance's demographic
9 research unit and it's projected enrollment from 2011-2012
10 through 2020 and '21. There's a projected enrollment of
11 6,323,367 which is an increase of about 112,000 students.

12 That equates -- you know, if you look at just
13 the -- a thousand school districts, that equates to about
14 112 pupils per district, but of course that varies
15 throughout the state. So that's just a very general
16 statement.

17 Mr. Savidge also has some more information on
18 projected enrollment.

19 MR. SAVIDGE: What tab is that one; do you know?

20 MR. MIRELES: It's at Tab 5.

21 MR. SAVIDGE: There's a PowerPoint presentation on
22 Tab 5 with some slides and I'm going to give you just a
23 brief look ahead at some of the state demographics and how
24 that translates into school districts in California.

25 So if you look at the -- all of this information

1 is from the California Department of Finance demographic
2 research unit and CDE's education demographics unit and the
3 first slide is -- shows the State of California's population
4 distribution for 2010-'11 and the growth in 2010-'11 and
5 basically indicates distribution of population by counties.

6 The growth over the last year was significantly
7 below projections and clearly was impacted by the economic
8 conditions of the state and migration patterns.

9 The next slide shows -- and this is from the
10 Governor's budget, prepared by the Department of Finance and
11 it shows projected growth in California and projections are
12 that we have growth returning to the state as the economy
13 begins to recovery and migration patterns change.

14 Just as an aside, one of the other charts that was
15 included in Finance's budget presentation indicated that the
16 growth in school age population over the next five years
17 will be about 1.9 percent and the growth in -- the largest
18 growth would be in the area of 65 to 85 year olds increasing
19 15.3 percent, just as kind of interesting comparison.

20 School age population is growing slowly.

21 But -- the next slide on K-12 student demographics
22 and these --

23 CHAIRPERSON BUCHANAN: So what was the 55 to 63?

24 MR. SAVIDGE: 65 to 84, 15.3 percent.

25 ASSEMBLY MEMBER HAGMAN: We're living longer.

1 MR. SAVIDGE: That's right. That's a good thing.
2 Here we go.

3 CHAIRPERSON BUCHANAN: That wasn't --

4 MR. SAVIDGE: That wasn't on there. It was an
5 aside. This slide with K-12 student demographics summarizes
6 what's actually also contained in the OPSC presentation
7 that's here which indicates that we have an overall
8 potential increase in enrollment up to 2020-'21 of
9 1.8 percent, 112,000 students and that represents, as
10 Finance indicates, a significant decline from prior
11 projection series.

12 However, if you look more closely at the data --
13 oh, I'm sorry. On the next page, there's a graph that'll
14 help you see that in a graphic way. Slow growth until we
15 get later on and there are some higher growth numbers
16 towards the end in 2019 to '21.

17 But the data that you see at 1.8 percent and
18 112,000 actually masks some significant variations in the
19 state and so, we've got heavy growth counties that I've
20 listed here, Riverside, Kern, San Bernardino. We have
21 declining counties, Los Angeles, Orange, Solano, and if you
22 look at the graph -- the map of the State of California, you
23 can see those counties are graphically illustrated and just
24 provide a reference of where we anticipate strong growth in
25 some areas, the Inland Empire, the Valley, and we have

1 decline in other areas.

2 So if we go to the next slide on projecting school
3 facilities needs, we took the top 27 growth counties and
4 said what's the actual student increase in the stop 27
5 growth counties in the State of California, selected this
6 because that's everyone that had a growth of more than a
7 thousand students.

8 And that shows us that we need to provide for
9 343,000 additional students within the top growth areas in
10 the State of California and the last slide says very simple
11 calculation. Not indicating what capacity we might have but
12 what if we had to house all those new students, what would
13 that take at 25 to 1 and it would take our needing to
14 construct in the State of California for those areas 13,700
15 classrooms.

16 Now that is by comparison to the data that we have
17 for the current program. It's actually a little bit slower.

18 The pace that we've been building new classrooms
19 is shown below from the Project Information Worksheet that's
20 been reported in the last three years, but actually includes
21 data that probably goes back to including about five years
22 where we've built 15,900 classrooms in the state.

23 So we do have growth. It's differentiated
24 throughout the state. It's probably a little bit slower
25 than what we've been doing now, but there's still

1 substantial areas of growth in the State of California that
2 we need to house students. And that's my brief presentation
3 of the background.

4 CHAIRPERSON BUCHANAN: So do we know -- I know --
5 we used to figure \$250,000 per classroom, but if you're
6 building new schools, it's more than that per student. Do
7 we know what the cost is per student if you're building a
8 new school? We have any idea?

9 MR. SAVIDGE: We don't have that information in a
10 clear way.

11 CHAIRPERSON BUCHANAN: -- to try and figure out
12 then what our needs are going to be.

13 MR. SAVIDGE: We can do that as the next step.

14 SENATOR LOWENTHAL: Now are the population
15 projections -- I want to go back, you know, because we've
16 had -- if you look at the actual demographic growth tree,
17 the projections starting next year are much -- are more than
18 where we've been for the last six years or so, you know.
19 That's based upon the assumption that starting in 2012 the
20 economy will be demonstrating how much growth? Because I
21 think this is all tied to the economy and I'd like to know
22 what the assumptions are.

23 How much growth are you assuming?

24 MR. SAVIDGE: Well, the assumptions that I
25 included are what was contained in the Governor's budget.

1 Chris, do you have any further information you could shed on
2 it.

3 MR. FERGUSON: No. In terms of population --

4 SENATOR LOWENTHAL: If you look at --

5 MR. FERGUSON: Yeah, it jumps way up.

6 SENATOR LOWENTHAL: It jumps way up and it stays
7 up.

8 CHAIRPERSON BUCHANAN: But look at the bars. It's
9 still under 2 percent growth. It's not --

10 SENATOR LOWENTHAL: It's still --

11 CHAIRPERSON BUCHANAN: It's not anywhere near
12 where it was in the other years.

13 MR. FERGUSON: Certainly. And a lot of the
14 demographic --

15 SENATOR LOWENTHAL: -- but that's based upon the
16 economy. That's where we had tremendous growth in the dot
17 com and --

18 CHAIRPERSON BUCHANAN: But these projections are
19 based upon the economy recovering. If not, your growth
20 stays down.

21 SENATOR LOWENTHAL: Yeah. What are they based on?

22 MR. FERGUSON: And I'd also note that a lot of the
23 census data that's used for this is out of the 2000-2001
24 census. Additional demographic data is now yet available to
25 the state.

1 SENATOR LOWENTHAL: So this is --

2 MR. FERGUSON: So this may not account for the
3 recent fiscal crisis in the state.

4 SENATOR LOWENTHAL: So this over ten years old,
5 the census data --

6 MR. FERGUSON: Correct.

7 SENATOR LOWENTHAL: -- that we're basing this on.

8 MR. FERGUSON: Correct. I believe the information
9 was provided to California -- the detailed information used
10 for these projections in 2002-'03 by the Federal Government.

11 MR. SAVIDGE: The demographic data is from
12 December 2011 though.

13 MR. FERGUSON: Yes.

14 MR. SAVIDGE: The student demographic data related
15 to the projected enrollment is -- the most recent
16 information is from December of 2011.

17 ASSEMBLY MEMBER HAGMAN: I notice the other charts
18 you see a decline in high school but K -- I mean K through 8
19 going up, the baby boom second generation --

20 MR. SAVIDGE: Yes.

21 ASSEMBLY MEMBER HAGMAN: -- is coming through.

22 CHAIRPERSON BUCHANAN: But what's interesting in
23 those charts if you take a look at them is that if you
24 just -- if you had a cohort eligibility you were moving and
25 you got like in the middle in '01 to '06, you've got, you

1 know, 7. -- start out in '98-2003, 9.4 percent growth in
2 elementary. You would expect then, you know, to have that
3 growth in the middle school, you know, six years later that
4 drops down to 5.6.

5 And if you take a look at the growth in the middle
6 school because three years later you're in high school,
7 you're not -- we're not seeing that move through. So we're
8 seeing an overall --

9 ASSEMBLY MEMBER HAGMAN: We're seeing an exodus of
10 the state.

11 CHAIRPERSON BUCHANAN: Yeah. An overall decline.

12 MR. MIRELES: I can explain that a little bit
13 further. What the information on page 13 reflects is the
14 school districts, when they apply for funding, they have to
15 submit a form to us and we have calculations to project
16 students.

17 We have a cohort survival method. So what this
18 represents is actual projections. For example, on the first
19 column, a school district that came in and applied for
20 funding in 1998, we did a projection in 1998 based on our
21 calculations.

22 CHAIRPERSON BUCHANAN: Right.

23 MR. MIRELES: And then we compared that to the
24 actual enrollment in 2003 as reported on our forms. And we
25 did that for those five years and any other enrollment

1 certification submitted for 1998, '99, and 2000 and a first
2 group and we took a look at those numbers.

3 So the first column for the elementary school
4 districts, what that represents is that the actual
5 enrollment was 9.4 percent higher than the projected
6 enrollment for those -- for that sample size.

7 And for the middle school, again the actual,
8 almost 4.7 percent higher. For high school, it was
9 8.2 lower, the actual enrollment versus what was projected.
10 Again the difference is this is what we use to calculate
11 eligibility for our program. So that's the difference
12 between these enrollment projection numbers versus the
13 others that we saw.

14 CHAIRPERSON BUCHANAN: Right.

15 MR. MIRELES: This is what is used in the SFP and
16 we have the same thing for the other groups of years in
17 terms of what was submitted. And again this is the -- what
18 the -- what we use to determine eligibility when a school
19 district is applying for funding right now. That is there's
20 only one check which is when the district applies and we
21 have this new unfunded list, but there is no other checks
22 after that even though the actual school district may not
23 receive an apportionment for some time later.

24 CHAIRPERSON BUCHANAN: So I was the one that asked
25 for this information and one of the reasons I asked was --

1 you know, if we're -- especially as we're -- and I don't
2 know whether you do it now or when you pass the next bond,
3 but as funds become more precious because we're not going to
4 probably have 35 billion the next ten years like we did the
5 last year is do we want to make sure that we still have
6 unhoused students and that need. Do we want to check that
7 more than at one step in the process because clearly we've
8 got uneven growth patterns and some of that -- I mean a
9 district like LA that's so big, you're going to have some
10 areas that are growing and some areas that are declining
11 because I would -- I don't know. You could correct me,
12 Lyle, but I'm sure you do probably eligibility by high
13 school attendance area rather than district wide because of
14 the uniqueness.

15 But just make sure that, you know, we're getting
16 money where you got -- you know, for new construction,
17 there's a priority there for unhoused students and I'm not
18 sure it's a decision we should make today. It may be
19 something that Bill, through the Implementation Committee,
20 ought to take a look at over this next year, but just, you
21 know, making sure that, you know, we're not basing numbers
22 on projects back in the housing boom and, you know, so you
23 have eligibility where you may not have that need for it for
24 a decade or more.

25 ASSEMBLY MEMBER HAGMAN: Yeah. I mean especially

1 if we're going to be keeping people on a list for a while to
2 get funded, I think it makes sense and for -- internally for
3 them as well, just to make sure they have current data and
4 current projections so they know that -- hopefully it's not
5 a full lengthy recheck but something that could just be
6 verified that the numbers we had back then are still pretty
7 validated before we put the shovel in the ground and start
8 building, recognizing there's a bunch of work that goes in
9 before that, that there are going to be expenses going out.

10 CHAIRPERSON BUCHANAN: Are there any questions?

11 ASSEMBLY MEMBER HAGMAN: I know this is probably
12 not -- I know it's not agendized, but something we have been
13 discussing is with this change in patterns of certain
14 counties to growth, in other counties -- decline in other
15 counties, that's got to leave some school assets
16 under-utilized or not utilized and this is not probably good
17 for this discussion, but keep in the back of our minds how
18 do we maximize some of the benefit of return out of those
19 properties that are being under-utilized so we could offset
20 maybe some of the money going out for new construction too
21 because otherwise you just can't keep going putting out 30
22 years of bonds and spend it on five or ten years and
23 expecting that the states will be able to keep paying for
24 that all the time.

25 So what can we do to leverage when there's not

1 that much of a growth, new buildings versus old buildings.
2 If we lease them out for 20 years, if we end up selling
3 them, putting them back in the pot, what can we do to maybe
4 keep some of those funds lasting longer and changing with
5 the demographics of the state.

6 CHAIRPERSON BUCHANAN: That's a tough question,
7 but maybe, Bill, you can add that to your list.

8 MR. SAVIDGE: Okay. Well, and we -- Assembly
9 Member Hagman and I have discussed that before, asset
10 management issues --

11 CHAIRPERSON BUCHANAN: Right.

12 MR. SAVIDGE: -- in the State of California --

13 CHAIRPERSON BUCHANAN: Well, and some districts --

14 MR. SAVIDGE: -- for our districts, you know,
15 really critical.

16 CHAIRPERSON BUCHANAN: -- do lease schools and
17 some end up selling land. I've seen some sell land, then
18 they buy it back at a much higher price five years down the
19 road, so it's -- it's not an easy question --

20 ASSEMBLY MEMBER HAGMAN: Yeah. But if you look at
21 overall -- way back, we went from a locally funded program
22 to keeping up schools prior to Prop. 13 and you raised your
23 own monies, you built your own schools, you maintain it till
24 the state -- well, we're going to take it back at the state
25 level and help you manage those funds and spread the cost

1 around areas that may not have any population growth at all.

2 I mean they may not have any new construction --

3 CHAIRPERSON BUCHANAN: Right.

4 ASSEMBLY MEMBER HAGMAN: -- coming in, but we're
5 going to make every county pay into this pot. If that's the
6 case, it's just like the courts. Do you take a step back
7 and try to manage those assets from a state level any better
8 than you're doing right now. It's kind of like half -- one
9 foot in the grave and one foot out when it comes to this and
10 we're just basically focusing on either fixing old schools
11 or building new ones right here, but that bigger picture
12 should be in context at least by the time we have to go out
13 for a new bond, which gives us some time to work on it, but
14 those thoughts need to be there.

15 CHAIRPERSON BUCHANAN: Yeah. I don't have a
16 problem with looking at it. It's just -- it's a very
17 complex issue when you're in a school district and -- you
18 know, the school district -- you've got 30,000 students. If
19 our enrollment drops by -- even by a thousand students, it
20 may be, you know, 50 students at each school. So it's
21 not -- and then you divide it up among grade levels and
22 it's -- and you still have -- you still need the same number
23 of classrooms or whatever.

24 But I do think, you know, how we manage -- I think
25 we should be taking a look at all of it. So I have no

1 problem with asking --

2 ASSEMBLY MEMBER HAGMAN: And maybe so we're not
3 putting so much money in to rebuild, but we're maybe just
4 making sure that maintenance level's good --

5 CHAIRPERSON BUCHANAN: Right.

6 ASSEMBLY MEMBER HAGMAN: -- because these schools
7 got to last a lot longer.

8 CHAIRPERSON BUCHANAN: Well, I don't think you'd
9 find a school superintendent that would argue about figuring
10 out a better way to maintain our schools.

11 ASSEMBLY MEMBER HAGMAN: Anyway back to the
12 original question.

13 CHAIRPERSON BUCHANAN: All right.

14 ASSEMBLY MEMBER HAGMAN: You know, these are very
15 generic things, but I'm in favor of staff coming up with
16 some kind of way to -- and I don't know if there'll be more
17 allotments out in the next few months anyway, but if not,
18 try to keep that in the back of your mind, worst case
19 scenario numbers, try to make them last as long as we can
20 and let us go back to the Legislature and try to figure out
21 concurrently with the budget trailer bill to see if there's
22 something we can fast track to fix everyone's things and
23 then come back.

24 CHAIRPERSON BUCHANAN: Maybe we can do this
25 because we're on to -- we've pretty much covered -- do you

1 have anything -- any questions?

2 SENATOR LOWENTHAL: No. No.

3 CHAIRPERSON BUCHANAN: Let's take any public
4 comment --

5 SENATOR LOWENTHAL: Really I need to hear from --

6 CHAIRPERSON BUCHANAN: Right. And then from
7 there, let's talk about possible directions or where we want
8 to go.

9 SENATOR LOWENTHAL: That's right.

10 MR. SMOOT: Hello. Lyle Smoot representing Los
11 Angeles Unified. This is a very interesting discussion,
12 fascinating in a lot of ways, and Assembly Member Buchanan,
13 you're absolutely right that the whole issue of enrollment
14 projections and what they mean in the overall scheme of
15 things is very difficult to know because we knew we -- even
16 though we have in the past filed on a district-wide basis,
17 we are constantly looking -- every year, we look at what
18 does this mean in terms of high school attendance areas.

19 And you're absolutely right. We have high school
20 attendance areas that are growing and some that are going
21 down. So overall maybe the district is declining
22 enrollment, but within the district there's funny stuff
23 going on.

24 The second piece of this puzzle -- and I'm trying
25 to talk loud enough. I don't know if everybody can hear me,

1 but the second piece of this puzzle is that this information
2 doesn't compare. While it does talk about enrollment
3 projection, how that compares to the actual enrollment that
4 shows up later, it doesn't talk about where were you when
5 you started and where are you today in terms of the capacity
6 to handle whatever that actual enrollment is today.

7 So without that piece of the puzzle, it's really
8 hard to, you know, have a complete picture.

9 CHAIRPERSON BUCHANAN: Right.

10 MR. SMOOT: As to the two programs that you're
11 talking about, potentially transferring the money, the
12 Critically Overcrowded Schools Program, I'm assuming you're
13 not talking about transferring that money until April and at
14 that point, you'll know exactly how much money, you know, is
15 available to you through districts and projects that haven't
16 been converted to final apportionments.

17 And I can tell you that we are very confident,
18 although, you know, our local dynamics and local funding are
19 causing us issues in that regard, we will be filing
20 applications to convert Critically Overcrowded Schools
21 Programs.

22 As far as the ORG program, we are also gearing up
23 for those -- that program. You know, we made an agreement,
24 if you will, when the ORG program came into effect that we
25 wouldn't just wholesale cancel COS applications and convert

1 over to ORG because we didn't have to use new construction
2 eligibility for us.

3 So we have fulfilled our commitment in that
4 regard. We've gone through and we've used the Critically
5 Overcrowded Schools Program to the maximum amount, you know,
6 that we could and now we're really gearing to go after the
7 ORG program.

8 And so, you know, that program -- obviously you
9 all know that the funding has gone like this and the ability
10 to sell bonds has gone like that and there's starts and
11 stops and all that. All those things have effects on the
12 district's ability to file applications.

13 So, you know, the fact that those things have
14 happened in the past has been a -- had an effect on LA just
15 like everybody else. So we would hope that you wouldn't do
16 anything about the ORG program until after you see at least
17 what is going to come in in the next round.

18 You authorized two rounds. The first one is
19 closing pretty soon. The second one starts and -- ends in
20 July. So we hope you wouldn't really have a serious
21 conversation -- or in that conversation about potentially
22 transferring ORG money, you would include a let's wait
23 until, you know, the application period for the July period
24 is over.

25 You know, the thing about LA is that -- you know,

1 the ORG program is finally going to give us some real relief
2 in terms of the number of portable classrooms we have. You
3 know, that program's really important as we go down the line
4 because our portables are aging. We really need to replace
5 portables. You know, that program is very important to the
6 district.

7 So we're really hoping that that piece of the
8 puzzle will be a major factor in any decision you may make.
9 So thank you very much.

10 SENATOR LOWENTHAL: So you're asking, from your
11 perspective, to slow down on the transfer of anything or
12 recommendations until we get a better picture on --
13 especially on the ORG program --

14 MR. SMOOT: Yes, sir.

15 SENATOR LOWENTHAL: -- of where we are and that
16 would be before we take any concrete action.

17 MR. SMOOT: Right. Because you won't know the
18 answer on COS until after April. You won't know the answer
19 on the current -- you know, the next round of ORG until
20 July. So, yes, that's exactly what we're asking.

21 SENATOR LOWENTHAL: All right.

22 CHAIRPERSON BUCHANAN: So I have a question for
23 you.

24 MR. SMOOT: Sure.

25 CHAIRPERSON BUCHANAN: So we have a situation

1 where let's assume we're not able to get a school bond on
2 the November 2012 ballot and I will tell you if I'm a school
3 board member and I have a choice of having a bond on the
4 ballot, which I know we desperately need versus not passing
5 some temporary revenues and having Prop. 98 cut 4.8 billion,
6 I would say okay, slow it down because those other cuts were
7 too devastating to the program.

8 I mean that would just -- that would be, you know,
9 very detrimental to the program.

10 So if we're not able then to have a bond on the
11 ballot -- I think the Governor's clearly given that
12 indication to us with the direction of -- you know, his
13 proposal to transfer to ORG and extend out the program to
14 November 2014 -- what -- do you have a proposal? Do you
15 want to see just the allocations go down? What is your
16 proposal for that?

17 MR. SMOOT: Well, I think historically what the
18 Board has done has just said we'll spend the money. When we
19 run out of money, we're out, you know, and that's the end of
20 that program until the next infusion of money through a bond
21 measure or whatever resource.

22 I think from our perspective that has worked
23 reasonably well. The districts understand it.

24 CHAIRPERSON BUCHANAN: We've never run out of
25 money and triggered Level III developer fees.

1 MR. SMOOT: Well, you see that Level III developer
2 fee is an issue that is kind of a -- it's a related issue to
3 school facilities, but it's really not the primary issue
4 that, you know, a district like Los Angeles would be
5 considering.

6 I don't know that we would institute Level III
7 fees of any major consideration anyway. You know --

8 CHAIRPERSON BUCHANAN: Well, you wouldn't, but I'm
9 just talking about if you were looking at it from a state --
10 we're trying to solve a statewide picture and there are
11 communities where if we issued -- if we imposed Level III
12 fees, we would probably shut down construction. We would
13 shut down new projects and all of a sudden the construction
14 unemployment, which is 30 to 35 percent in the state, would
15 be even worse and the some of the communities where the
16 construction employment would go up are the communities that
17 have 40, 45 construction unemployment right now because
18 they're -- so what -- so we have to solve -- figure out how
19 to solve that problem.

20 So we're either going to transfer money over or
21 not transfer or just reel -- slow down. But I think the
22 Governor's direction is he wants to avoid hitting Level III
23 fees because of that economic impact on the state.

24 MR. SMOOT: Yeah. And I think everybody
25 understands that issue, Level III fees --

1 SENATOR LOWENTHAL: Um-hmm.

2 CHAIRPERSON BUCHANAN: Right.

3 MR. SMOOT: -- could in fact have a serious effect
4 on the economy and the whole recovery issue.

5 I think from our perspective if that is an issue
6 you need to address, just address it head-on and --

7 CHAIRPERSON BUCHANAN: Right.

8 MR. SMOOT: -- just through the Budget Act say
9 Level III fee authority is suspended for a year.

10 SENATOR LOWENTHAL: That's right.

11 MR. SMOOT: There you go. All of this other stuff
12 that, you know, slows down money, this, that, and the other
13 thing, really I think just creates other unintended
14 consequences.

15 So if that is an issue that the Governor is --

16 CHAIRPERSON BUCHANAN: I don't believe it can be
17 handled through the Budget Act. I think --

18 MR. SMOOT: -- really -- suspendable.

19 CHAIRPERSON BUCHANAN: Isn't it part of the
20 constitutional amendment that was passed --

21 SENATOR LOWENTHAL: Oh, I don't think it's
22 constitutional.

23 MR. LYON: The Level III authorization --

24 CHAIRPERSON BUCHANAN: Yes. Right.

25 MR. LYON: -- Madam Chair? The Level III

1 authorization was statutory. It is in Assembly Bill 50.

2 SENATOR LOWENTHAL: No. I think it all can be
3 done through --

4 CHAIRPERSON BUCHANAN: All right.

5 MR. SMOOT: We just think that would be a more
6 direct better way -- you know, and everybody has -- that's
7 been in this program understands you have money, you run out
8 of money, then you wait for the next infusion, you know, and
9 this concept of a slowdown -- an arbitrary slowdown, you
10 know, most everything's -- in my mind, I'm thinking, well,
11 okay, let's talk about a slowdown, if you will.

12 So you establish some level of money that you're
13 going to allocate on some basis, whether that's monthly,
14 quarterly, semi-annually, whatever, but what happens when --
15 let's say you establish 35 million every six months and the
16 next project comes in is one of ours at 175 million. What
17 does that do to -- I mean you just say okay, we're not going
18 to do anything for three years? You know, that wouldn't
19 make any sense. At least we don't think it would.

20 So we think we'd be better off if that's an issue
21 and I understand that it is. Just go at it --

22 CHAIRPERSON BUCHANAN: Let me ask one more
23 question.

24 MR. SMOOT: Sure.

25 CHAIRPERSON BUCHANAN: Do you think there should

1 be any kind of recertification of eligibility so you're not
2 building a school where originally you had plans -- there's
3 going to be a big development going in. Now that
4 development may not go in for ten years. Do you think there
5 should be any --

6 MR. SMOOT: That's a really interesting question
7 because, you know, the reason that recertification is going
8 to happen typically because you don't fund until a
9 district's ready to build --

10 CHAIRPERSON BUCHANAN: Right.

11 MR. SMOOT: -- and now you're not funding because
12 you're out of money and that's a different issue.

13 So recertification because the state couldn't
14 provide the money when it was needed or, you know, the
15 district wasn't ready for it, quite frankly my mind creates
16 a question about whether it's reasonable to have a recheck
17 because quite frankly -- I speak for LA. I'm not going to
18 speak for all districts --

19 CHAIRPERSON BUCHANAN: Right.

20 MR. SMOOT: -- because I don't represent all
21 districts. But LA, if our demographics changed to where we
22 didn't need a school, we wouldn't build it because we don't
23 want to spend that 50 percent of the money on that school.

24 CHAIRPERSON BUCHANAN: Well, and I think where we
25 run into it recently is with the financial headship grant,

1 but I'm just saying if you're running out of money, should
2 we make sure that where that money is going is where you've
3 got, you know, overcrowding and unhoused students. Do we
4 have --

5 MR. SMOOT: Well, you know, if you -- if there's a
6 desire on the part of the Board to do that, just, you know,
7 a second check to make sure, I don't think that's
8 necessarily an enormous issue, at least not for LA except
9 the enrollment projection system as you've seen in here in
10 these -- in this data is funny, you know, and a little
11 downturn, for instance, this change in kindergarten dates --

12 CHAIRPERSON BUCHANAN: Right.

13 MR. SMOOT: -- that little downturn ripples
14 forward and could create enormous -- what looks like an
15 enormous drop in enrollment coming at you because
16 enrollment, you know, is built from the kindergarten grades
17 up.

18 And so that little two month or whatever it is
19 change in who's going to kindergarten will make a big
20 difference. So I would say if you want to do a
21 re-verification, that re-verification should probably be on
22 actual enrollment at the time.

23 CHAIRPERSON BUCHANAN: Well, we have to allow
24 adjustments for something like that that was -- we --
25 recognize as a temporary --

1 MR. SMOOT: Right.

2 CHAIRPERSON BUCHANAN: -- change with the cohort
3 that goes through --

4 MR. SMOOT: What I'd like to see is compare actual
5 enrollment at that point in time --

6 CHAIRPERSON BUCHANAN: Right.

7 MR. SMOOT: -- rather than project enrollment
8 because as you can see we're going like this because of the
9 economy not necessarily because that's the natural answer to
10 things, so -- okay?

11 CHAIRPERSON BUCHANAN: Anyone else?

12 SENATOR LOWENTHAL: No. I enjoyed that very much.
13 Thank you.

14 MR. SMOOT: Thank you.

15 MR. LYON: Madam Chair, Senator Lowenthal,
16 Assembly Member Hagman, Richard Lyon, California Building
17 Industry Association.

18 Just a couple thoughts on some things I've heard
19 here today. It would be great if we had a school bond in
20 2012. We may not get there and I think all agree that this
21 program needs to be managed in a way that keeps it viable
22 and keeps all parties at the table until we can get to
23 another school bond and if not 2012, then that would have to
24 be, unless a special election is called, 2014.

25 We agree on the notion that a recommendation

1 should come from the ground up from this Subcommittee to the
2 State Allocation Board because if there is going to be a
3 shifting of funds beyond critically overcrowded funds, it's
4 going to require that the two-thirds vote of the Legislature
5 authorize that.

6 So we would strongly recommend that this process
7 go from the ground up.

8 On the COS dollars, (indiscernible-coughing)
9 version was in the Prop. 47 and 55 and it has been the past
10 pattern and practice of the Allocation Board when those
11 dollars come back in and they have not converted to move
12 them over into new construction.

13 So we think that that should be -- that pattern
14 and practice should be followed in -- at the appropriate
15 time in April or May when that issue is again before the
16 Board.

17 On the ORG, we sincerely appreciate the leadership
18 of the Governor on this issue and I think it's something we
19 see as a very positive step forward, but let me say this.
20 We need to do this in a partnership and we need to do it in
21 a way that as I said earlier keeps all parties at the table
22 and comfortable.

23 So having said that, I don't have a plan to lay
24 out on how to do it, but I would -- I'd just say we are not
25 about going in and cannibalizing other elements of the

1 program to our benefit. We want to do it in a way that is
2 cooperative and that, as I said, keeps bodies whole and
3 keeps them at the table.

4 So there are other dollars that come back into the
5 program from rescissions and closeout and as I went back and
6 took a look at what the staff has done, you know, that
7 amounts to some -- you know, over time that can amount to
8 some significant dollars. So we would hope that that
9 process would be maintained. You probably don't need to do
10 that -- anything legislatively. That's more of an
11 administrative act, but if the Board in its recommendations
12 or the Subcommittee in its recommendations could recognize
13 those actions and recommend that they go back into new
14 construction, that would be very helpful.

15 On the metering, I think it probably needs to
16 happen. The kind of the how and how much and what the time
17 frame is is something that's going to take some time and
18 thought to come up with. Certainly we could do it on a
19 monthly basis, on a quarterly basis, with a defined dollar
20 amount.

21 Or we could also look at a performance-based
22 approach and that would look at projects that are coming in
23 that are on the workload that are shovel-ready projects and
24 projects that are ready to go and those could be the
25 projects that would rise to the top and that would be the

1 projects that would be funded on whatever basis we're
2 looking at.

3 So that's something that we think that -- we think
4 you should take a look at and consider.

5 On the notion of simply suspending Level III, I
6 should get up and salute Lyle on that. I would just kind of
7 add this bit of a caveat though.

8 We don't want to get ourselves into a situation
9 where we encourage lawsuits and there is -- the Level III
10 statute is statute, so the Legislature can make a later
11 declaration about that. You could definitely suspend it.

12 There is an Attorney General opinion out there in
13 2002 that says that Level III is not triggered as long as
14 there's money in the account and as long as the SAB
15 continues to approve apportionments.

16 If we were to come to a situation where there's no
17 more money in the account, the SAB is not approving
18 apportionments, but the Legislature has said that you can't
19 go to Level III, that could set up a situation where you've
20 got a conflict and somebody goes to court over that.

21 We wouldn't want that to happen. So that's
22 something that we kind of need to think through.

23 But with that, that's just some observations.

24 CHAIRPERSON BUCHANAN: You're the builders, so --

25 MR. LYON: Yes, ma'am.

1 CHAIRPERSON BUCHANAN: In terms of going to
2 Level III phase, I mean in terms of the options, in terms of
3 keeping people employed and the economy and projects going,
4 what are the impacts there?

5 MR. LYON: The impacts would be significant. I
6 have actually a document that I brought here today that I
7 will give to the members and to the staff some examples of
8 what Level III fees would be like in various areas of the
9 state.

10 It would be the kill shot to new development going
11 forward. At a minimum, we're talking about fees for school
12 mitigation going up to \$20,000 a unit and that's just a
13 minimum. Those are modest areas where they have kind of a
14 modest Level II fee that would be doubled.

15 So it is -- as I said it would be devastating to
16 new development going forward to have to bear that because
17 it's not just school fees we pay. It's a long list of other
18 fees that are included as well.

19 SENATOR LOWENTHAL: I appreciate that and I think
20 that we are all struggling with that issue that I think was
21 described by Assembly Member Buchanan that we do not want --
22 this could -- by going to Level III fees, we could
23 potentially have a very negative impact upon the
24 construction industry which is already in -- so
25 understanding all that and just trying to understand -- what

1 was the thinking by putting Level III fees in originally to
2 be able to have this, to allow us to -- when we have bonds
3 to pay out in each of the categories and then when it's
4 exhausted, it's up to the -- either we move to Level IIIs or
5 we put more funding.

6 Why was that there?

7 MR. LYON: Well, it's -- that's a good question,
8 Senator, and I was there at the table at the time.

9 We all wanted to have a program that could be --
10 that could work and that all could agree to and it was one
11 of those decisions that was made at a time in 1998 when the
12 state was in a very different fiscal situation. The economy
13 was very different and we were at the table with a group of
14 education interests where we all wanted this thing to work.

15 So we had agreed to -- we agreed to it at that
16 point.

17 The program -- actually the program wasn't new.
18 It wasn't even a program yet, so we didn't know if the
19 program would work.

20 We have 12 years of experience with the program
21 that is a shared -- at least in new construction, a shared
22 partnership between the state, school districts, with
23 builders not only paying fees, but we agree to fully back up
24 the school district if they couldn't raise 50 cents to
25 leverage the state's 50 cents.

1 That's huge. We don't just pay fees. We back up
2 the local school district if they can't come up with the
3 dollars to match the state dollars.

4 So it was at a time when we weren't sure if the
5 program was going to work and we wanted to get this thing
6 moving forward because the alternative of no bonds or
7 lawsuits between school districts and builders was just not
8 a good alternative.

9 So we've had 12 years now. The program works. We
10 have -- we've met our burden. We've met our share. It's
11 been a shared burden. There's equities involved here and
12 there's a need to keep the program together going forward.

13 And if we went to Level III, we would have one of
14 the funding partners gone and we don't want that.

15 So I hope that's responsive, Senator.

16 SENATOR LOWENTHAL: Um-hmm.

17 CHAIRPERSON BUCHANAN: What I've always liked
18 about Level III fees is that it really keeps you invested in
19 the program because the threat of going to Level III fees
20 means that when we go out to pass a bond, you've got to
21 commit time and money and effort in to -- and join hands
22 with us and help us pass that bond. So it keeps you as a
23 partner in the program.

24 SENATOR LOWENTHAL: So you're advocating maybe a
25 limited suspension until we get an --

1 CHAIRPERSON BUCHANAN: Well, I'm going to advocate
2 not for a suspension and I want to tell you why and Lyle may
3 not agree with me, but I'm in a suburban district, you're in
4 an urban, but I want to tell you why I believe it works for
5 all of us not to have a limited suspension.

6 In our school board, I mean Gary Gibbs and I
7 negotiated a developer agreement back in 1992. That's how
8 far back I -- 11,000 home development, developers donated
9 land, built schools, and it all worked because of the state
10 program.

11 And when I looked at -- take a look at that
12 program, if the developers would have just paid us the
13 statutory fees, we couldn't have built the schools. If they
14 would have just even given us the Level II fees, we couldn't
15 have built them. We were able to have this agreement.

16 Now if we suspend Level III and developers pay us
17 Level II fees -- so statutory -- I mean they've met all
18 their requirements, there's not enough money to build the
19 schools, you know.

20 So you've got to have -- and if we -- so if we do
21 nothing and run out of money in five months or whatever and
22 have to do nothing for two and a half years, we
23 essentially -- okay, you're not paying Level III fees,
24 you're only paying us Level II fees, but if there aren't any
25 schools, you can't sell your house.

1 I mean you're in the exact same position as if you
2 are in Level III fees.

3 Now I know that doesn't print money for you, but
4 if you have some way of making sure that you don't trigger
5 the Level III and you can still allocate funds and you're
6 getting money to where you, you know, have that mismatch in
7 terms of capacity and eligibility, then I think it's not
8 going to be a perfect program, but you have a better shot of
9 keeping development going. So that's --

10 ASSEMBLY MEMBER HAGMAN: And that's why I add onto
11 it. I mean we need to prioritize what we spend it on and
12 just like any other budget, family or business, you got to
13 pick your priorities and stretch it out until we get through
14 this.

15 We have -- also we're looking at the water bond.
16 We're looking at this. We're looking at a number of things
17 that the state frankly has no money to pay for at this point
18 that we need to get through this next year or two or three
19 years.

20 I also -- in my limited time on the Board this
21 year -- and I've talked to members very openly in the Board
22 meetings about it is I think there's some -- I like the
23 program and I see the need to continue it and eventually
24 probably you'll get to a bigger bond release, but over long
25 term, 30, 50 years, you can't keep going at this burn rate

1 of money to build new schools and keep bonding out ten years
2 but spending it in five and paying on it for 30 years. You
3 just can't do that on the business model.

4 So we need to look at how we could basically be
5 very efficient at this building, how we pick and choose who
6 gets this money based on demographic changes and there are
7 some minor tweaks to the bigger program without reinventing
8 the wheel that I think if we're able to extend this out over
9 the next two years with some kind of level keeping it out,
10 that will give us a chance on the Board and the Legislature
11 to look at some of those issues more in depth and try to
12 resolve before you get the new bond out.

13 Because basically last time it was get the bond
14 out, then we'll kind of invent it as we go and I think
15 there's some problems. And one of the ones I always brings
16 up was why are we spending 30 year bond money on portables
17 that are supposed to last for 10. You know, what are we
18 paying the same amount for those things. Those are the type
19 of things I'd like to talk to at some point.

20 But if we go with this recommendation, if we're
21 able to satisfy the needs of the building out there by
22 combining these funds but putting the rules in for
23 eligibility, maybe changing that and we combine the funds,
24 so it's not just going strictly for this or that. We can
25 have some kind of sense on the Board to allocate that out to

1 the highest needs that we have by putting those language
2 into the legislation we need to do it.

3 Then that gives us those options to last the two
4 years, build up the new program, sell it bipartisanly out to
5 there on a nonelection year where the polling's not that
6 good for it.

7 CHAIRPERSON BUCHANAN: So the Senator's let me
8 know that he has another commitment --

9 SENATOR LOWENTHAL: Needs to leave; right.

10 CHAIRPERSON BUCHANAN: -- and so I guess my
11 question is -- because it'd be great if we could have a
12 consensus. Let me just say --

13 MR. DUFFY: Sure.

14 CHAIRPERSON BUCHANAN: We're still going to let
15 you talk. We're still going to let you speak. Do we want
16 to have maybe one more meeting to discuss --

17 SENATOR LOWENTHAL: One more meeting. I'm not
18 ready yet --

19 CHAIRPERSON BUCHANAN: I understand that and --

20 SENATOR LOWENTHAL: I'm getting there, but I'm not
21 ready yet.

22 CHAIRPERSON BUCHANAN: -- see if we can and then
23 you have specific questions, maybe you can get those to
24 me --

25 SENATOR LOWENTHAL: I will get them to you.

1 CHAIRPERSON BUCHANAN: -- and I'll get -- and
2 whatever information we have.

3 SENATOR LOWENTHAL: I want to hear from CASH first
4 and then I'm going to leave.

5 CHAIRPERSON BUCHANAN: Okay.

6 MR. DUFFY: Thank you, Madam Chair and members.
7 Let me get to the last conversation before going to the
8 other issues.

9 I can add on a little bit to what Richard had to
10 say.

11 Coming up to 1998, school districts and
12 developers -- and you were on a school board at the time and
13 you, Senator, may have been on the council in Long Beach at
14 the time. You may have been in school at the time, I don't
15 know, Mr. Hagman.

16 SENATOR LOWENTHAL: That was very good, the way --
17 (Laughter)

18 MR. DUFFY: There were conflicts between school
19 districts and developers because developer fees weren't
20 really at that level to make up for that 50 percent that
21 Mr. Lyon talked about.

22 Those conflicts ended up in lawsuits and there's
23 this -- there was a trinity of lawsuits that we referred to
24 Mira/Hart/Murrieta and that brought this coalescing of
25 people together to say let's resolved this.

1 As a school superintendent, I believe that we
2 needed more fees. Mr. Lyon believed that we needed some
3 constraints on districts suing and that was the agreement
4 that will be able -- if you had eligibility for the state
5 program for new construction, you could get fees and the
6 promise there was we'll take away Mira/Hart/Murrieta and
7 we'll put in place the Level III fees, the guarantee.

8 And we have never had a collision with that.

9 I appreciate the comment that you made, Madam
10 Chair. We do not want a suspension of Level III. We at the
11 same time are not calling for a trigger of Level III.

12 We would like to resolve this by this kind of
13 discussion that's happening today.

14 And so what was in place -- and I guess, Senator,
15 just answering your question, just hitting the nail on the
16 head, Level III was a commitment from schools, developers,
17 and the state to make sure that we had adequate facilities
18 for children.

19 And we always say that we spend the first dollar
20 for education in California on schools because that's what
21 the Constitution says, but we always have that struggle and
22 this is one of those struggles.

23 But we're not asking to pull the trigger and we
24 have not talked to any member about doing that. We haven't
25 asked any of our school district folks to talk to any of you

1 about it because we believe that we need to resolve this
2 issue of the economy in California and we know housing is
3 significant.

4 But we don't want to leave schools behind as one
5 of those three major partners.

6 On the other -- and I'll be quick. On the other
7 matters, on looking at the projection, I think your
8 suggestion would -- is a good one, have the Implementation
9 Committee discussion this.

10 We have proposed legislation in the last several
11 years. Jackie Goldberg carried legislation for us a couple
12 times to look at projections and be more accurate.

13 And I think that's what you were after. Let's
14 look for accuracy. We don't have an objection to that.
15 Let's talk about that.

16 And I think the Implementation Committee is the
17 perfect place for that.

18 Shifting the dollars, we have a letter -- and I
19 can leave this for you. This was a letter, April 6, 2011,
20 that we sent to the Board about the matter of shifting
21 dollars and what you should do.

22 We put in place -- with the Critically Overcrowded
23 Schools Program, we put in place the shift of those dollars
24 on purpose because we knew that there needed to be a
25 mechanism for that.

1 And we support that, recognizing that LA has some
2 issues. We're concerned -- and so going back to what you
3 said, Senator.

4 We're concerned about presupposing and seeing that
5 the Governor's put this into his proposal, allowing the 120
6 of you to discuss that along with the Governor and having us
7 and the development community and others at the table I
8 think is a good thing.

9 I think it's good for the Allocation Board to talk
10 about this because you're the experts on it and you can
11 inform the members that -- or your colleagues, but we'd ask
12 you to be very, very careful with that at this point in
13 time.

14 One is you've got the two funding version -- or
15 two opportunities for those schools that may need them like
16 LA. The other is it gives us a period of time to try to
17 continue to work through these issues.

18 On the metering, if that's the term, I would take
19 you back to what happened when the Godinez lawsuit happened
20 in the early part of the last decade. The Allocation Board
21 began metering on a quarterly basis. It was -- it created
22 havoc in planning and constructing schools at that time.

23 It was a different time. Growth was different,
24 but I would say what you have put in place is really a very
25 good thing. We have been in support of that. We know

1 districts are looking at that and getting to the issue --
2 and you mentioned it, Mr. Hagman, of if you're ready to
3 build, let's give you the money. Well, we like what you're
4 doing now because that works.

5 I'll be -- I'm done.

6 CHAIRPERSON BUCHANAN: I'd like it too as long as
7 there's money in the checkbook to write the check.

8 SENATOR LOWENTHAL: Thank you. And I apologize, I
9 must get to another meeting. Thank you.

10 MR. DUFFY: Thank you.

11 ASSEMBLY MEMBER HAGMAN: The one thing I would
12 just bring up is as the Senator's walking away is if there
13 is a legislative operation here, we do have our procedures
14 of introducing a bill and all the rest of the stuff that we
15 have to keep up.

16 So I think one of the options that was brought up
17 is wait and see how it goes toward the end of the year. I
18 don't think we have that luxury to do that and react that
19 quickly.

20 I mean there's always a will, there's a way, but
21 it's better that you have that option even if you don't
22 execute that option --

23 CHAIRPERSON BUCHANAN: The authority.

24 ASSEMBLY MEMBER HAGMAN: -- the authority to do it
25 at some point. And I think one of the things that we could

1 come out of here is the major parties involved, it'd be much
2 easier if we all come in agreements to help us with those
3 languages as we go forward, but at the same time, I think --
4 I feel responsible at least to try to work to see if there
5 is a vehicle for that and not just rely on the budget
6 because that could be always -- in bigger pictures, in
7 bigger theories, you know, that may or may not go over well
8 when it comes down to the two-thirds vote.

9 And to keep all those options open, I would still
10 advocate for possibly getting a vehicle in place.

11 Whether or not we go forward on it, that's not
12 decided yet. But to have that option both in the budget and
13 separate strict legislation or if we end up tabling both
14 banks and go some other route, I think it gives us the clear
15 options to go.

16 MR. DUFFY: Well, if we could make a commitment to
17 work with you and the other members of the Allocation Board
18 from the Legislature on this with the development community,
19 so we're all at the table talking, and I think we --

20 ASSEMBLY MEMBER HAGMAN: Yeah, I think that's the
21 best way.

22 MR. DUFFY: Yeah. We'd like to do that. And let
23 me thank you very much for your patience. You're very good
24 listeners.

25 ASSEMBLY MEMBER HAGMAN: Thank you.

1 MS. LOW: Michelle Low on behalf of the Charter
2 Schools Association. I will be brief. Basically just agree
3 with everything that Assembly Member Hagman said. I do
4 believe it's important for the Board and the Subcommittee to
5 make a decision about how to extend the bond authority in
6 case the budget doesn't go -- or along with the budget.

7 We do support the Governor's budget proposal to
8 shift ORG money and we do believe at the moment that
9 Option 1(a) is most in line with the intent of the
10 Governor's budget.

11 CHAIRPERSON BUCHANAN: Thank you. Is there anyone
12 else who has any comments?

13 ASSEMBLY MEMBER HAGMAN: I think we need to set up
14 a next meeting quickly.

15 CHAIRPERSON BUCHANAN: -- we have --

16 MR. FERGUSON: I think it -- help with your issue
17 for clarifying. The Governor's budget trailer bill language
18 for education should be out in early February. There will
19 be language for the transfer for ORG and there will be
20 language in there for the regulation of modernization and
21 new construction funds.

22 We will propose it. It will be there. To the
23 extent the Legislature chooses to seek alternative
24 legislation, it's something the administration would
25 certainly look and consider.

1 ASSEMBLY MEMBER HAGMAN: Well, the only thing I'm
2 concerned of is your -- historically we're waiting till the
3 last minute to pass the budget around this place, at least
4 the last few years I've been up here, and even with the new
5 provisions of the last year, you're looking at June 30th.

6 That's half this year. What do you do with the
7 monies that you have?

8 So -- and if it doesn't go through for some
9 reason, now you're stuck.

10 So, one, I would suggest that possibly you come
11 back with -- at the meeting a plan -- if all else fails and
12 we want to slow the train down a little bit, what's the best
13 way we could do that.

14 And then the sooner we know when something like
15 that would pass, the better for everyone's sake in this
16 room, and that's what I'm saying. You can't have a separate
17 piece going through, that if we had the language, if the
18 language is ready to go and everyone's in agreement, which I
19 don't think we're there yet, but once it ever does get to
20 agreement, we could try to push it through in the fast track
21 of the Legislature, get it out possibly prior to the budget
22 being signed. That would give a lot more certainty to how
23 the rest for the next two years could be funded or not
24 funded as the case may be.

25 So I think you keep all those options going, but

1 if there's a way to do that prior to June 30th or whatever
2 the case may be --

3 CHAIRPERSON BUCHANAN: I think what the Assembly
4 Member might be saying is if we have the authority to do
5 it --

6 MR. FERGUSON: Certainly.

7 CHAIRPERSON BUCHANAN: -- then if the Governor
8 says yeah, let's put a bond on the ballot or the dynamics
9 changes, we don't have -- you don't have to move forward.
10 But given the fact that that is a two-thirds bill and the
11 Legislature does have to give the State Allocations Board
12 authority, it may make sense to try and take that item
13 off -- out of the budget discussions earlier.

14 MR. FERGUSON: Certainly. And based on some of
15 your comments earlier, we would certainly encourage the
16 Legislature to act quickly on all of the budget-related
17 items before you.

18 ASSEMBLY MEMBER HAGMAN: Yeah.

19 CHAIRPERSON BUCHANAN: And can you elaborate any
20 more on the Governor's intent in terms of is it not to
21 suspend or is it to, you know, stretch out the program so
22 that we're able to --

23 MR. FERGUSON: I think the intent is to certainly
24 extend out what's out there right now. In terms of timing,
25 we recognize that the fund level in new construction and

1 modernization is starting to dwindle and we're looking at
2 other sources of potential bond authority that could be
3 transferred to those programs in the short term.

4 CHAIRPERSON BUCHANAN: Okay. Thank you. Are
5 there any other -- anyone else who wishes to speak?

6 Okay. Well, then this meeting is adjourned. We
7 will schedule hopefully one final meeting and any of you who
8 have ideas -- yeah, quickly -- any of you who have ideas,
9 we're more than happy to spend time and share them and see
10 if we can't come up with a solution that works for
11 everybody.

12 MS. SILVERMAN: Are we shooting for February?

13 CHAIRPERSON BUCHANAN: I think it'd be -- well, or
14 I don't know.

15 MS. SILVERMAN: Sooner.

16 CHAIRPERSON BUCHANAN: If we could do it sooner, I
17 would just as soon do it sooner, but, you know --

18 ASSEMBLY MEMBER HAGMAN: I think the direction is
19 if we get all the major stakeholders to come with some
20 general framework, that helps. This could be derailed very
21 easily or it could be gone through very easily.

22 (Whereupon, at 4:48 p.m. the proceedings were recessed.)

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REPORTER'S CERTIFICATE

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