STATE ALLOCATION BOARD

SUBCOMMITTEE ON PRIORITIES IN SCHOOL CONSTRUCTION FUNDING PART II

STATE CAPITOL, ROOM 127

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1 APPEARANCES

2 Committee Members:

3 CYNTHIA BRYANT, Chair

4 ASSEMBLY MEMBER JOAN BUCHANAN (Telephonic)

5 KATHLEEN MOORE, Director, School Facilities Planning
Division, California Department of Education, designated
6 representative for Jack O'Connell, Superintendent of Public
Instruction; Member State Allocation Board
7
SCOTT HARVEY Chief Deputy Director, Department of General
8 Services, designated representative for Ron Diedrich,
Acting Director, Department of General Services.
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11 Office of Public School Construction Staff:

12 LISA SILVERMAN, Acting Executive Officer

13 JUAN MIRELES

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1 P R O C E E D I N G S

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3 CHAIRPERSON BRYANT: Go ahead and get started and
4 call the Subcommittee meeting to order. We have just for
5 everybody to realize that we do have Assemblywoman Buchanan
6 on the phone from a remote location. Do you have any
7 members of the public with you in San Ramon or are you by
8 yourself?
9 ASSEMBLY MEMBER BUCHANAN: No.
10 CHAIRPERSON BRYANT: Okay. So if anybody does
11 come there and wants to speak, just let us know and they
12 can --
13 ASSEMBLY MEMBER BUCHANAN: Okay.
14 CHAIRPERSON BRYANT: -- they can speak. So we
15 have in the room our other Subcommittee members Scott Harvey
16 and Kathleen Moore and I thought maybe what we could do is
17 start with any opening comments from the Committee members.
18 I think our goal here today is to -- as we discussed at the
19 last State Allocation Board meeting is to take a look at
20 other ways that we can expedite shovel-ready projects and
21 also keep our cash balance low. And we have -- we're going
22 to have -- I think we're going to have someone here from the
23 Department of Finance who can talk a little bit about how we
24 in the past have used the PIMA just for everybody's
25 understanding and then we can discuss all of the various

1 aspects of the cash reserves that we have available in our
2 program. So with that, I think I'll ask Kathleen if she has
3 anything she wants to add.
4 MS. MOORE: No, Cynthia. I think you've expressed
5 it very well. We're happy to be here. I do think this is
6 an issue that we need to grapple with and I'm appreciative
7 of the staff coming up with some possibilities and I'm
8 interested --
9 ASSEMBLY MEMBER BUCHANAN: I'm having a hard time
10 hearing. I don't know. Maybe -- if you need to turn the
11 volume on your speaker or --
12 CHAIRPERSON BRYANT: Is there any chance we could
13 move --
14 (Off record.)
15 CHAIRPERSON BRYANT: All right. As we were
16 saying. Ms. Moore.
17 MS. MOORE: I'll just be very brief so we can get
18 moving and -- we're pleased to be here and I'm appreciative
19 of the efforts of staff and look forward to hearing from
20 stakeholders as well. So thank you.
21 CHAIRPERSON BRYANT: Mr. Harvey.
22 MR. HARVEY: Likewise I think this is a proper
23 thing to do. When you've got cash and you've got need and
24 trying to get people to work and make schools safer, I think
25 these discussions are most appropriate and I'm kind of

1 excited about the options because to me they don't work
2 unless you incentivize the district to do something. And I
3 think these options capture that and I'm going to be
4 interested in hearing more about that fact, but I certainly
5 want to put money out and to build schools and if you're
6 construction ready, I want to go. So I'm happy to be here
7 as well.
8 CHAIRPERSON BRYANT: Assembly Member Buchanan.
9 ASSEMBLY MEMBER BUCHANAN: I think both of you
10 have expressed my sentiments completely.
11 CHAIRPERSON BRYANT: Okay. Great. All right
12 then. So I think what I propose doing is having staff --
13 just so everybody -- I just want to make it really clear
14 that we -- I met with the staff last week and we just
15 noodled through a bunch of options and that's what's
16 reflected in the staff memo. And I think it's really
17 important for everybody to understand that it's not
18 necessarily a recommendation. It's not necessarily a limit.
19 There's maybe other ideas that other people have and maybe
20 as we have a discussion today, we can have -- you know,
21 other things will come out that we can draw upon.
22 But I kind of have a view of we have -- we
23 structured it -- this memo way, kind of some short-term
24 issues that relate to the $600 million of cash that's
25 currently in our account. We also are going to have -- we

1 also have cash management issues related to rescissions that
2 are going to be happening in the short term and we also have
3 future bond sales. So I think we can kind of think of it
4 as, you know, there's -- we may have different approaches
5 depending on which pot of funding that we're talking about.
6 And so as people comment on this and as we go through, I
7 would suggest that, you know, everything's on the table and
8 that it's not -- we're not limited by the words on the
9 paper. We just know that this process is helped by having
10 some words on a paper to help us talk through issues.
11 So I think with that, Juan, do you want to go
12 ahead and walk us through the memo.
13 MR. MIRELES: Certainly. Starting with page 2 and
14 Option 1. This option is for districts that have received
15 an apportionment meaning they actually have cash, but they
16 have yet to request a fund release. We realize that there
17 are some districts that may not -- may need a little bit
18 more time to come in and request a fund release. They do
19 have the 18 months. These are the projects that came in,
20 received an apportionment, and they have 18 months to submit
21 a fund release, but more many factors, they're not ready to
22 go right now. So this allows the districts to buy time and
23 by buying time, we mean that they would be taken out of the
24 apportioned -- the apportionment and place that project on
25 the unfunded list.

1 So what does that mean? It basically gives a
2 district an opportunity if they know they're not ready now,
3 but they don't want to give up that apportionment, it gives
4 them certain assurances that they can be placed on the
5 unfunded list. And where on the unfunded list they would go
6 is something that we can have a discussion. There's options
7 there, but basically this option is for districts that have
8 an apportionment; they're not ready to go right now. They
9 can sort of step of line and get placed on the unfunded list
10 to get more time.
11 That's the basic concept of Option 1, but I can --
12 be happy to answer any questions about the specifics or if
13 we want to get into some of the --
14 CHAIRPERSON BRYANT: I think -- my thinking is, is
15 that if we kind of click through the short-term options
16 and --
17 MR. MIRELES: Okay.
18 CHAIRPERSON BRYANT: -- and then we can discuss
19 those a little bit.
20 MR. MIRELES:
21 CHAIRPERSON BRYANT: Does that work for everybody?
22 MR. MIRELES: Option 2 is what we call the swap
23 option. This is a for a district that has projects on both
24 the apportioned list, but they haven't requested a fund
25 release yet and a project on the unfunded list. Now, we've

1 taken a look and we know that we have some districts that
2 have that situation and that have also submitted a
3 certification under the first priorities in funding round,
4 that they have certified that they have a project on the
5 unfunded list that is ready to submit a fund release if they
6 receive an apportionment within 90 days.
7 So this option gives a district an ability to swap
8 the projects. If they have a project that received an
9 apportionment but again they're not ready to go with that
10 project, but they have a different project on the unfunded
11 list and they are ready to move with that one, it gives them
12 the ability to swap the projects and we have to make sure
13 that they're of equal value as the apportionment or less.
14 There are certain conditions with that. But that's the
15 basic concept with this swapping. A school district that
16 has projects on both lists and they want to swap the
17 projects.
18 Option 3 is similar to Option 2.
19 CHAIRPERSON BRYANT: Excuse me.
20 MR. MIRELES: I'm sorry.
21 CHAIRPERSON BRYANT: I think Ms. Moore has a
22 question.
23 MR. MIRELES: Okay.
24 MS. MOORE: Just on that one. I know this is
25 probably another layer of detail and I'm not sure if you've

1 thought about it, but if a district were to swap the project
2 and in fact the swapped project is worth more --
3 MR. MIRELES: Um-hmm.
4 MS. MOORE: -- so they're capped at a certain
5 amount for that project. Let's say, you know, they're
6 swapping at 25 million and the project's really 35 million
7 State share. Is there a mechanism for them to pick up the
8 10 million State share later or are they giving that up or
9 have you -- has staff thought about that issue?
10 MR. MIRELES: We haven't really thought about all
11 the details.
12 MS. MOORE: Okay.
13 MR. MIRELES: That's something that we have to
14 address, you know, when they're not exactly the same because
15 that's not really going to happen. So what happens if
16 there's a remaining balance and what to do with that. But
17 it's not something we've really --
18 MS. MOORE: Okay. Flushed out yet. Okay. That's
19 fine. Thanks.
20 CHAIRPERSON BRYANT: Mr. Harvey.
21 MR. HARVEY: I guess my question is very, very
22 similar because for me -- for this to succeed, we have to
23 have real options and not those that appear to be valuable
24 but don't have possibility of working because you don't
25 have, in your example, a district that has a project equal

1 to or somewhat less.
2 MR. MIRELES: Um-hmm.
3 MR. HARVEY: I don't know if you've flushed out
4 how many folk might even qualify for this option. Sounds
5 good, looks good, but is it really a viable option, unless
6 you do something like Ms. Moore suggests. You have a way of
7 not capping it --
8 MR. MIRELES: Um-hmm.
9 MR. HARVEY: -- but recognizing it's got to be
10 within a range and how do you make up that difference. So
11 I'll be interested in knowing a little bit more about the
12 viability of the option as we discuss it. Thank you.
13 MR. MIRELES: So far we've identified at least 30
14 million of projects that are in this situation, meaning that
15 they have -- a district has a project on both lists. We
16 need to delve further into that to see, you know, the
17 dollars as far as matching up project to project, whether
18 it's more, whether it's less, but we do know that there's at
19 least 30 million worth of projects that -- from a district
20 that has a project on both lists.
21 MR. HARVEY: Okay. Thank you.
22 MS. SILVERMAN: And may I add there's also
23 limitations within the bond source as well, so that's an
24 extra layer that we have to sort that out as well.
25 MR. HARVEY: Could you -- what does that mean?

1 MS. SILVERMAN: So I mean you may have a project
2 that's on the unfunded list that may be let's say an ORG
3 project and then likewise you may have an apportionment
4 sitting on the live list and it may be for a COS project.
5 MR. HARVEY: I see what you're saying.
6 MS. SILVERMAN: That you can't do an exchange for.
7 It has to be obviously like to like --
8 ASSEMBLY MEMBER BUCHANAN: Right. Right.
9 MS. SILVERMAN: -- source. Right.
10 MR. HARVEY: Like kind. Okay. Thank you. Does
11 Assembly Member Buchanan have any questions? We can't see
12 your body language.
13 ASSEMBLY MEMBER BUCHANAN: No -- well, I do, but I
14 think I'm going to probably reserve them till after we go
15 through all of the options -- finish going through all the
16 options here.
17 CHAIRPERSON BRYANT: Okay. Juan.
18 MR. MIRELES: The third option is similar to
19 Option 2, but this again for a district that has projects on
20 both lists, but the project that they have on the
21 apportioned but yet unreleased list, that project the
22 district knows will not be able to move forward again for
23 whatever reason. So this option is -- gives the district
24 the ability to rescind that project, not place them on the
25 unfunded list, but just rescind it entirely if the district

1 knows, with the condition that they could swap another
2 project that is on the unfunded list.
3 So again the difference between Option 3 and
4 Option 2 is that this -- Option 3 is for districts that have
5 a project on the apportioned list but they know it cannot be
6 moved forward and the district elects to rescind that
7 project in exchange for one that's on the unfunded list.
8 And one other thing that I did want to highlight
9 is for all of these options, these would all be voluntary
10 options that the district would have the ability to enter
11 into one or several of these options. Those are the
12 short-term options in terms of what we've identified as
13 something that we could do to try and expedite the fund
14 release. I can pause here --
15 CHAIRPERSON BRYANT: Did you do Option 3? I
16 guess --
17 MR. MIRELES: Yes, I just --
18 CHAIRPERSON BRYANT: Yeah. Why don't we -- do you
19 want to talk a little bit about short-term options for a
20 minute and maybe hear from some of the audience members. I
21 just have generally a couple comments on this question of --
22 and I think Lisa Silverman called it live apportionments and
23 I think there's one thing that we just have to put on the
24 table and I don't have a perfect answer for it is that we do
25 have -- there is a question of whether or not what that

1 promise is, that apportionment that was made by the State
2 Allocation Board, what is the character of that. Is it a
3 contract? Is it something -- can we legally -- I'm asking a
4 legal question. Can we legally move that money around and
5 that's one -- it's a complicated question. As everybody's
6 aware of these bond law questions are difficult to answer,
7 so we don't know that -- some of us are starting to take a
8 look at that, but that just may mean that after all this
9 that we say there's no way to do this and that's why when we
10 were coming up with options we were looking at ways of
11 making it voluntary.
12 Generally speaking for myself, I'm a little bit
13 uncomfortable and I'd like to hear commentators talk about
14 this -- about the notion that districts can just switch
15 within their own funds because the effect of that is is that
16 they will be jump -- they will have the ability of moving a
17 project ahead of other districts' projects and the one thing
18 that all of you have done for me this year is made me very
19 sensitive to the order of the list. And I think that's why
20 priorities in funding works so well because it doesn't
21 exactly -- it retains the character of the order of the list
22 and doesn't really cause a jumping. It sort of does, but
23 it's at least a fair jumping and there might be an argument
24 here that just if a district can swap itself that it may not
25 be fair and, you know, I just -- I'd like to just hear from

1 people about that topic.
2 ASSEMBLY MEMBER BUCHANAN: Well, I am -- I have a
3 problem with those Options 2 and 3 because I think that --
4 you know, that takes our funding and treats it as though
5 we're giving a grant amount to a district without regard to
6 the list.
7 Now, Option 1, I mean the reason we might want to
8 explore a little bit further is that you could potentially
9 craft that in a way that you could benefit existing projects
10 on the list that are waiting to get funded and also -- so
11 those districts would benefit -- or those projects. It also
12 might be a benefit to the district that is -- you know,
13 needs a little bit more time to sell bond money or whatever
14 to complete a project. So, you know, something like that
15 could potentially benefit both, but I think Options 2 and 3,
16 they're a little bit more complicated than that and, you
17 know, that gets into whether or not you're funding projects
18 or you're providing, you know, just certain -- X number of
19 dollars to a district.
20 CHAIRPERSON BRYANT: Right. I think I agree
21 with -- you said it better than I did.
22 MR. HARVEY: Let me offer a subtle counter to that
23 and I'll put it in the context of today. From my
24 perspective, we're not changing the base program. We're
25 recognizing that we're in a rather unique economic

1 situation. We haven't sold bonds. We've got districts that
2 have for various reasons chosen not to proceed with
3 projects. We've got 600 million that we can put to good
4 use, to put people to work and to build schools, and it's an
5 emergency situation and I think we categorized our first
6 experiment as that.
7 So to me this is going to be a short-term thing
8 that the Board in the future reflects on, talks about,
9 perhaps doesn't institute again, but because of the
10 uniqueness of this time and the fact that we've got a fair
11 amount of dollars sitting there to me, I'm not willing quite
12 yet to let go of Option 2 and 3 because I think it
13 facilitates putting money out, project ready, 90 days, and
14 it benefits Californians. So to me I want to hear more
15 obviously from the stakeholders, but I think these are all
16 exciting options in the framework of today's economy.
17 MS. MOORE: I have one further comment a little
18 bit of a wrinkle on No. 1 in that from the information that
19 we received from staff, the December list of projects that
20 would lose their apportionments because 18 months are up,
21 that would be December 10th, that's a hundred million dollar
22 list. That's roughly a month away -- a little over a month
23 away. Either those districts with those projects will have
24 to perfect them within the next 30 days or they actually
25 will be back in the pool.

1 And my concern is this. Those that are waiting at
2 the other end of the list that could possibly move forward
3 in a, you know, 90-day time frame, there's a hundred million
4 right there and we don't know how much of that may perfect.
5 The unfortunate piece in my mind about those projects is
6 they're mainly career technical education projects that were
7 funded, you know, December 10th -- or that were funded a
8 year and a half ago. I find that unfortunate, but that's
9 the character of that list.
10 So I think with that wrinkle, we ought to look at
11 our options.
12 CHAIRPERSON BRYANT: Okay. So let's ask is there
13 anyone that wants to talk about this kind of short-term
14 cash-on-hand questions. Mr. Duffy, Gary?
15 MR. DUFFY: Madam Chair, Members, Tom Duffy for
16 the Coalition for Adequate School Housing. I appreciate
17 this discussion. The first option is something that
18 actually has been around for well over a year. It was being
19 marketed by the California Building Industry Association
20 hopeful I think of averting level 3 by having dollars that
21 were available for the Board to make apportionments. I
22 think it's important for you to consider Option 1.
23 I'm a school district guy like Ms. Moore. That's
24 where I grew up and that's why I'm sitting here today. I
25 don't know that I would be incentivized with Option 2 and

1 Option 3. If -- with the difficulty -- and, Mr. Harvey, you
2 and I have had this discussion before. With the
3 difficulties that school districts are having today -- this
4 has been the three worst years that I've ever seen in public
5 education. School districts are having difficulty with
6 general fund capital dollars and others.
7 If you want to incentivize them, I think you need
8 to offer something additional. Now, I'm not sure exactly
9 how you do that, but giving -- with Option 1, certainly a
10 district can say I'm not ready to move. My board may be
11 unwilling to advertise for bid because we've just laid off
12 teachers and the community and the teachers association
13 won't understand how we can spend these dollars, but we
14 can't -- we don't have dollars for teachers.
15 And again, Mr. Harvey, you and I have had this
16 discussion before. If there were to be an incentive where
17 something additional were provided to the district -- and
18 I'll have to think about how to maybe suggest that to you --
19 CHAIRPERSON BRYANT: I was just going to ask you
20 if you had any ideas.
21 MR. DUFFY: I could probably offer several.
22 CHAIRPERSON BRYANT: I mean I think there are
23 probably -- I mean we obviously have talked about this a lot
24 ourselves and I think there are some things you could do.
25 Some of it might require legislation. Some of it also might

1 be thoughts -- you know, and one of the things I want to get
2 into -- and after we go through this initial stakeholder
3 discussion, I want to call Greg Rogers from the Department
4 of Finance up here. He's one of our infrastructure experts.
5 And one of the things that we're -- you know, I've
6 said this all along and you and I had this conversation
7 enumerable times, but we are in this paradigm shift and
8 there is that -- we are -- so we're going to -- the
9 program's going to have to work differently in the future
10 and that's going to be a combination of if there's a new
11 bond. It's a combination of our existing program and that's
12 going to transition after -- you know, over the next year.
13 And so I think thinking of incentives is really
14 important. I think thinking at what is it that -- how do we
15 keep this program as a lean, mean cash machine but still get
16 the schools built, still run the program the way we always
17 have. I think that's our challenge, so I'm challenging you
18 to think of incentives.
19 MR. DUFFY: I'll be pleased to do that. I think
20 it's important that you as a Subcommittee of the Board are
21 having this discussion at this time. Ms. Bryant, we have
22 greatly appreciated your leadership and the Board's
23 leadership. We supported the priorities in funding item
24 last May and continue to support it, including now, because
25 we believe that you and the Board have done I think an

1 excellent job of trying to get districts to move forward, to
2 really incentivize them. Come in the door, promise you'll
3 be on the street within 90 days, and we'll make sure you're
4 funded. So we continue to support that.
5 We would very much want you to support the sale of
6 additional bonds if that's possible in the short term and I
7 know we have the three of you on this current Board only for
8 a very short period of time. But the Board's leadership and
9 your leadership are important to us and we thank you for
10 your efforts. And I'll think of the incentives.
11 CHAIRPERSON BRYANT: Think about it. Okay.
12 MR. DUFFY: I'll make a list for you.
13 CHAIRPERSON BRYANT: Okay.
14 MS. MOORE: Tom, if I may. There is one incentive
15 that I see in No. 1 for a district that may be coming up on
16 losing their apportionment of allowing them to go back in
17 line without a refile which means a recalculation of
18 eligibility which may be affected by any changes in
19 enrollment. So I think there is a baseline incentive for
20 someone probably further up on the list and that may be
21 losing their project soon versus those maybe further back.
22 But they could have the same issue as well if they've lost
23 enrollment. I think that's one of the incentive -- that's
24 the only incentive I can see right now if I were a district
25 that I might avail myself to.

1 MR. DUFFY: I agree with you and we've thought
2 about that and discussed that, that because of the
3 difficulties for districts with the state giving largess to
4 say, well, if you want to step out of line right now for
5 funding, we'll make sure that that project remains fundable
6 into the future. And I agree that that is an incentive.
7 MR. HARVEY: Let me offer a second incentive
8 perhaps and that is recognizing that giving something up is
9 difficult unless you're on that deadline. I would support
10 putting the swamped -- or the -- what's it called -- the --
11 it is a switch.
12 MS. MOORE: The given-up project.
13 MR. HARVEY: The given-up project right below the
14 health and safety on the unfunded list. So you're not
15 forcing them to go in line to the project they switched.
16 You're not forcing them to go all the way down to the
17 bottom, but as a higher incentive to do this switch for
18 whatever your motivation is, I would ask us to consider
19 allowing them to go right below our health and safety on the
20 unfunded.
21 MS. MOORE: I see that, but as I said, I grapple
22 with a little bit of the -- and I know we're in an emergency
23 situation, but with the fairness issue, particularly
24 projects that potentially will come off the list in
25 December. If I'm a district at the other end of the list

1 and I'm just waiting for somebody to come off the list so
2 that maybe I'm going to have a shot, I would be hard-pressed
3 to support that they get to go back up in front of me again
4 because, you know, they gave up their spot one month before
5 they actually were going to be forced to give up their spot.
6 So --
7 MR. DUFFY: What has been suggested, Ms. Moore, in
8 these discussions over the last nine or ten months has been
9 keeping the date -- if a district were to give up its
10 apportionment to keep the date so that it stayed in that
11 priority that you were speaking to, Ms. Bryant. So that's
12 something I think to consider.
13 If I were a school district superintendent today
14 and I had a project that was stalled for whatever reason,
15 keeping my date would probably be something that was a
16 positive thing for me to forego funding.
17 MR. HARVEY: There's an incentive. Thank you,
18 Tom.
19 MS. MOORE: And, well, in essence that would be
20 what you said, Mr. Harvey, because the date would be earlier
21 than anybody else on the list.
22 MR. HARVEY: Right.
23 MS. MOORE: So it essentially would be right after
24 health and safety.
25 MR. HARVEY: I understand.

1 CHAIRPERSON BRYANT: And assuming -- Joan.
2 ASSEMBLY MEMBER BUCHANAN: I was going to say, I
3 mean we're assuming if we allow a district to swap, which I
4 still am not even close to being convinced, that that
5 district is ready to go to bid with that swap immediately.
6 I mean we're changing some sort of rules there because if
7 not, I mean I tend to agree that a district has a project
8 that's a month or two away from going off the list, they are
9 not going to do that project, but now we're allowing them to
10 pull a project up from the middle of the list and whereas a
11 project that's at the top of the list would have bumped up
12 in a month or two and now they're going to have to wait even
13 longer.
14 So I mean the whole goal here is not just to
15 rearrange the list and then keep it where you can -- you
16 know, whatever's new, you can wait 18 months potentially,
17 but the whole goal is to figure out how do we make sure that
18 we get money to projects that are ready to bid immediately
19 and I'm not sure where --
20 MR. HARVEY: Well, I think that was part of the
21 condition --
22 ASSEMBLY MEMBER BUCHANAN: -- that swap necessary
23 automatically -
24 MR. HARVEY: -- you had to be ready to go 90 -- I
25 think Juan will clarify a feature for you.

1 MR. MIRELES: That's true. When we looked at the
2 list, we were looking at the projects that submitted -- the
3 district submitted certification that their project would be
4 ready to submit a fund release within 90 days if they
5 received an apportionment. Those are the ones we compared
6 to the projects that are on the unapportioned but yet
7 (indiscernible) list. So we're basing the fact that they're
8 ready to construct on their certification that they
9 submitted in the first priority round.
10 MR. HARVEY: So the swapped project would have to
11 go within 90 days. It wouldn't have 18 months.
12 ASSEMBLY MEMBER BUCHANAN: So we'd have to change
13 the rule there to say the only way you can swap is if you
14 bid within -- if you have a signed contract within 90 days?
15 CHAIRPERSON BRYANT: Yeah. It would have --
16 MR. HARVEY: That's part of our regulations.
17 We're --
18 ASSEMBLY MEMBER BUCHANAN: Right.
19 MR. HARVEY: These short-term options don't change
20 the regulations the Board approved on the first go-round.
21 CHAIRPERSON BRYANT: Well, I think -- I actually
22 think though I think we would have to structure this with
23 the 90-day option in it. I think we're assuming that.
24 ASSEMBLY MEMBER BUCHANAN: Right. Okay.
25 MR. MIRELES: Yes. We would have some minor

1 regulation changes to address that.
2 CHAIRPERSON BRYANT: Right.
3 MR. DUFFY: That's what we believe and just one
4 final comment if I may. I appreciate very much your comment
5 earlier that you have been schooled by us, the stakeholders,
6 in the sacred quality of date order. That's been with the
7 program from the old program through the new and I
8 appreciate you recognizing that. Thank you.
9 MR. HARVEY: If I were to be here much longer,
10 Mr. Duffy, I would love to have a robust discussion about
11 why it's 18 months and not 12 or some other figure, but we
12 won't do that today.
13 CHAIRPERSON BRYANT: Well, it used to be --
14 MR. DUFFY: Well, I can tell you the history of
15 that some other time.
16 CHAIRPERSON BRYANT: Yeah.
17 MR. HARVEY: Yes, and I'm sure it'll be over
18 coffee when I'm retired.
19 CHAIRPERSON BRYANT: So can I.
20 MR. GIBBS: Hi.
21 CHAIRPERSON BRYANT: Hi.
22 MR. GIBBS: Gary Gibbs, California Building
23 Industry Association. First of all, I'd like to thank you
24 for having this Committee meeting and I think the overall
25 goal here is admirable. What I'd like to do is talk about

1 this wonderful chart that was created by the OPSC, the cash
2 flow chart, and basically to kind of frame it, I think it's
3 really addressing where Kathleen's going.
4 You're looking at $600 million in apportioned
5 projects today which means you also have $600 million
6 sitting in cash in the bank. And the goal is try to move
7 that money out as quickly as you can in terms of
8 shovel-ready projects. The California Building Industry --
9 our only advocacy for this is to try to create shovel-ready
10 projects. It has no impact on anything else out there. I
11 mean it definitely doesn't affect level 3 or anything. We
12 just believe in moving projects out.
13 But if you take a look at this chart and if you do
14 nothing, the first $200 million will move out within three
15 months. So those are already shovel-ready projects. One of
16 two things will happen. Either that first $200 million
17 through January, they'll build the projects because the
18 districts have already bid them out and they're going to
19 sign contracts shortly and build or if they're not ready to
20 build, the projects will be rescinded and that $200 million
21 will go into shovel-ready projects.
22 So for me -- so the focus on this first
23 $200 million through January of 2011 makes no sense because
24 it defeats your goal. Your goal is to move cash out
25 quickly. It's going to happen regardless if we have this

1 meeting or not. So to me what you're really looking at is
2 the $300 million 12 months out. And the concern is that 12
3 months out from October on basically the districts have 12
4 months before they have to sign contract and build. And so
5 if there's some way to leverage that money, if there's some
6 way to borrow that money or loan that money to shovel-ready
7 projects now, while not -- no one's advocating jeopardizing,
8 changing, you know, where they are in the queue right now.
9 I think that would be counterproductive. But to maybe loan
10 that money to shovel-ready projects and replenish that as
11 you have bond sales in spring of 2011 and fall of 2012 makes
12 a lot of sense to me.
13 But I would really recommend focusing long term
14 and now short term because otherwise we're kind of throwing
15 the baby out with the bath water. It becomes
16 self-defeating.
17 And the second part of this is I would try to
18 keep -- recommend keeping this as simple as you can. To me,
19 it is you got 300 million a year from now. Borrow it
20 somehow, loan it. It's cash sitting there today. Loan it
21 for somebody who can build today who's next in line and then
22 just replenish it down the road. And if in the worst case
23 you don't sell bonds, have some backup position, credit
24 line, short-term credit line, so it's kind of a quasi what
25 we're doing pre-2008. It's kind of a quasi scenario.

1 The other thing I do absolutely support kind of
2 where Joan Buchanan is coming on 2 and 3. I think (A)
3 you're adding a huge complexity, but (B) you are going to be
4 discriminating against all those districts in the State of
5 California who cannot swap, who cannot change, and I don't
6 think that's where we want to go or where you want to go. I
7 mean I don't particularly care which options you take. I
8 think they're all good options, but I think that's kind of
9 discriminatory and I think you just want to move in date
10 order of the next projects ready to go and try to get the
11 money out as simply as possible. So anyway, those are the
12 general comments to start the dialogue. Again thank you
13 very much.
14 MR. HARVEY: Do you have a model you'd recommend
15 for loaning this money?
16 MR. GIBBS: My recommendation would be that you
17 loan the $300 million that's in the account now subject to
18 when you sell the next bonds, you replenish that
19 $300 million. If -- to me a lot of that money's not going
20 to draw out to even 2012. I mean you got of some of it. If
21 in the worst case scenario which probably won't happen, you
22 have maybe a hundred million dollar shortfall in terms of
23 you haven't been able to sell bonds, then I think you need
24 to have a backup position, some kind of credit line. It
25 would be a short-term credit line until the bonds were sold.

1 And maybe it's a hundred million, 200 million. I know
2 that's -- that may be unfeasible, but I think that's not a
3 bad, you know, at least an option to look at because the
4 cost of that short-term credit line -- it's just a bridge
5 loan because you have bonds, you are going to sell at some
6 time and in the worst case, okay, you have to -- say there's
7 a hundred million dollars sitting there where you have to go
8 finance internally. You haven't sold bonds. In fall of
9 2011, you borrow that money internally through a loan. The
10 cost of that loan is going to be till you sell the next
11 bond. And so maybe that's couple percent for six months or
12 a year. So maybe the cost is $2 million to loan the money.
13 But you're always backed up with bond sales. So it's not
14 like it's a risk scenario. It's just a bridge loan to get
15 you through the time. So that would be my -- something
16 along that line.
17 ASSEMBLY MEMBER BUCHANAN: And I think what you're
18 really saying is we should manage our cash flow differently
19 to get money out.
20 CHAIRPERSON BRYANT: Right.
21 MR. GIBBS: Exactly.
22 ASSEMBLY MEMBER BUCHANAN: That's right. And I
23 agree. I think that's probably -- you know, if you -- the
24 best analogy I can give you, if you've got an insurance
25 company -- and I know no one likes to talk about insurance,

1 but you know that depending on the kind of you, you've
2 always got one or two or three months. Say if you're
3 medical insurance, you might have like two or two and a half
4 months of what they call incurred but not reported. Right?
5 So you've got to keep a reserve.
6 So the question here is over the 18-month time
7 period, how many people ask for their money in the first six
8 months, the second six months, or the last six months and
9 you take a look at that over time and we manage our cash
10 flow in such a way that we actually can extend out more
11 approvals, but because we're managing our -- we're granting
12 approvals in accordance with how we anticipate our cash
13 flow, but we're never giving more than our total bonding
14 capacity.
15 CHAIRPERSON BRYANT: Right. And I think that
16 is -- it's precisely how this program was managed prior to
17 the shutdown of the PMIA. We just --
18 ASSEMBLY MEMBER BUCHANAN: Right.
19 CHAIRPERSON BRYANT: That's essentially what we
20 did. This staff is very good at understanding their cash
21 flow needs, but in that shutdown period -- which no one knew
22 how long it was going to be --
23 ASSEMBLY MEMBER BUCHANAN: Right.
24 CHAIRPERSON BRYANT: -- and at the time, everyone
25 assumed it was going to come back, we made, you know,

1 intermediate steps --

2 ASSEMBLY MEMBER BUCHANAN: Sure.

3 CHAIRPERSON BRYANT: -- and I completely agree

4 with you and you might -- it might be -- is there anybody

5 else that wants to comment on this short-term question?

6 MR. GIBBS: There's one difference. If we

7 continue with the old program today, we would have

8 apportioned projects up close to $3 billion. So we're

9 not -- I'm not saying going out and apportion $3 billion.

10 We're looking at some kind of, you know, compromise

11 position. We then went to the other extreme where we have

12 to, you know, find the cash and have it sitting there for 18

13 months. We sell the bonds first.

14 So somewhere maybe between those two extremes of

15 $3 billion in apportioned projects, if we had the program

16 today versus $600 million sitting in apportioned projects --

17 cash today and somehow manage that flow so you're not at

18 risk instead of having all that cash just sitting there for

19 18 months. That's -- and that's more of a policy decision.

20 That's something that can be implemented more long term. I

21 mean I think it -- you know, we're looking at short term,

22 but it's, you know, something strategically long term.

23 MS. MOORE: Mr. Gibbs, are you -- when you talk

24 about the $300 million, you're talking after January?

25 MR. GIBBS: I'm talking after --

1 MS. MOORE: So the --
2 MR. GIBBS: -- October 2012 -- '11. 2011.
3 There's 200 million through January.
4 MS. MOORE: Right.
5 MR. GIBBS: Then there's a hundred million dollars
6 in apportionments from January till October 2011 and then
7 there's 300 million October '11 on.
8 MS. MOORE: Okay.
9 MR. HARVEY: How about your hundred million. I'm
10 surprised what your --
11 MR. GIBBS: That's in the first three months.
12 MS. MOORE: Well, the -- I mean a hundred million
13 is up December 10th.
14 MR. HARVEY: Exactly.
15 MR. GIBBS: That's in the first three --
16 MS. MOORE: And so I mean there's a piece here to
17 me that, you know, I hope those districts every single one
18 of them perfect those projects. I think that's the best
19 case scenario particularly because they're -- it's
20 predominantly career technical education and that program
21 was so well supported all the way around. So I mean that's
22 the best scenario ever and then those jobs are out there.
23 However, if that does not happen, I mean this --
24 the State Allocation Board can meet on December 15th and
25 start the process for that hundred million.

1 CHAIRPERSON BRYANT: Funny you should say that.
2 MS. MOORE: I mean -- we're meeting December 8th,
3 I think?
4 CHAIRPERSON BRYANT: Yeah. That leads us into --
5 actually it's one of the things we realized as we were going
6 through some of these options is we started thinking about
7 that exact fact and if -- and we have this priorities round
8 that's open right now and we were noodling on the notion of
9 extending the deadline on this priorities round that we're
10 seeing interest on and taking that money -- moving the State
11 Allocation Board meeting a week later and taking that money
12 and maybe doing some advance borrowing and making a larger
13 apportionment in December. I think that we just really
14 started talking about in the last 48 hours, but I think that
15 we can do that and I think we can get a large chunk of cash
16 apportioned in the month of December in the priorities round
17 and really get a lot of -- get a large investment made.
18 And so I think that's one of the things we want to
19 try to figure out between now and the next Board meeting.
20 Anything else from you, Gary?
21 MR. GIBBS: Just to reinforce that if you do
22 nothing, there's going to be $200 million going out over the
23 next three or four months including that hundred million.
24 And I agree with you. I hope that 200 million, because it's
25 at the back end of that 18 month, I hope they build. I mean

1 that would be the ideal world, but if not that money --
2 either there are going to be buildings going out or they're
3 going to be rescinding and you're going to be allocating
4 to --
5 MS. MOORE: And 90 days -- up to 90 days later
6 someone else could be building.
7 MR. GIBBS: Yeah. Yes. Exactly. So we don't
8 have to do anything. Thank you very much.
9 CHAIRPERSON BRYANT: Mr. Bakke.
10 MR. BAKKE: I wasn't prepared to speak today, so I
11 really appreciate Gary's comments a lot. I think we're in a
12 point right now where we really have to kind of think
13 outside the box of how we operate and do business and I
14 think again how we manage our cash is extremely important.
15 The pseudo-PMIB proposal that has been talked about is a
16 very interesting one. It's one the district would certainly
17 support in helping develop. We have over $400 million in
18 projects on the unfunded list. Every one of them is ready
19 to go. We just can't get to there because we're just at a
20 certain point in the line. But we can help. We can
21 contribute, but we just need to figure out a way to be
22 creative with how we -- we do this cash management, we
23 certainly could step up and participate in that.
24 One of the things that isn't included in this
25 conversation is environmental hardship projects. It's

1 another way of looking at other projects that can actually
2 move cash out. Environmental hardship projects don't get an
3 unfunded approval. They don't get an apportionment from the
4 State. They get an approval from OPSC. I'm sure Juan or
5 Lisa can speak to that more. But these are projects that
6 are ready to go that just need their advance cash to do the
7 site cleanups and get going. Many of our projects in LA
8 fall under that category and are ready to go as well. So
9 there's another way to look at cash to keep projects moving
10 that's included because it doesn't fall under the unfunded
11 list.
12 So I just want to put that out there for
13 consideration as we talk about what types of projects there
14 are. There are projects. They're just not represented on
15 this list.
16 MR. HARVEY: Quick comment on that. The only
17 thing I will support are options that are fair to districts
18 throughout California, but urban, suburban, and rural, big,
19 large, and medium size, and I think these do that. I'd like
20 to hear more about how many of the districts are in --
21 MR. BAKKE: I don't know. I mean I'm sure Juan or
22 Lisa can speak to what it looks like throughout the State,
23 the environmental hardships, but I don't think it's limited
24 to being an urban district, so I don't know. If you guys
25 want to speak to that, what the environment looks like

1 today.
2 MR. MIRELES: I don't have a list of projects we
3 submitted, but environmental hardships, these are the
4 projects that are going to take longer than six months to
5 clean up. The Department of Toxic Substances Control has
6 certified it's going to take a little bit longer to clean
7 up, so they qualify under this other provision under
8 environmental hardship to get them money. And they are in a
9 similar situation that we had some of the charter school
10 projects that had a preliminary apportionment, yet they
11 didn't have cash backing them.
12 So it's a similar situation with environmental
13 hardship. It's something that we can definitely take a look
14 at, but to answer your question, Mr. Harvey, I don't know
15 how many are in one region versus the other. I don't have a
16 list right now.
17 CHAIRPERSON BRYANT: But it's not just one large
18 district.
19 MR. BAKKE: It's not a LAUSD probably. Thank you.
20 CHAIRPERSON BRYANT: All right. So if it's okay,
21 what I'd like to do is call Greg Rogers up. He's the
22 Assistant Public -- I mean Assistant PBM -- what does --
23 MR. ROGERS: Program Budget Manager.
24 CHAIRPERSON BRYANT: -- Program Budget Manager.
25 But he is the Executive Director -- or Executive Secretary

1 of the Public Works Board which is the way the State does
2 most of the rest of its infrastructure funding and he's, you
3 know, our expert in the Department on infrastructure. So I
4 think you've heard the discussion. You and I have had a
5 couple conversations about our program and I'm -- just like
6 I think you'd be helpful -- hear your thoughts on this.
7 MR. ROGERS: Again Greg Rogers at Department of
8 Finance. No, I think you guys, from discussion, are on the
9 right track. I mean every program within the State that
10 uses GO bond proceeds has had to look about how they
11 allocate the money prior to compared to 2000 -- before
12 2000 -- December 2008 when the Pooled Money Investment Board
13 stopped doing the AB55 loan program. I think that affected
14 everyone statewide and so since then my own projects, we use
15 lease revenue bonds, but a different kind of bond, but we
16 really relied on the AB55 loan program and we've had to go
17 out and look at legislation and change the way we fund
18 projects to do it more on a cash basis.
19 We had to fund them sooner in the process than
20 later, but it kind of comes down to cash management. When
21 we did our budget letter that laid out the plan for the all
22 the departments and agencies, you know, it kind of talks
23 about trying to use the bond proceeds quickly and in a
24 timely manner and that's -- and all the agencies have had to
25 look at that and how they administer their programs. I

1 think everyone's kind of -- some agencies have struggled
2 more than others on how to do that because when we've looked
3 at this fall, what we did is because we had since March of
4 2009, then the fall sale and this past spring, we've
5 actually gone back and looked -- our department has -- on
6 the amount of cash sitting there in all these different bond
7 acts.
8 And it's kind of astonishing on some of the bond
9 acts, you know, the balances that are there and we kind of
10 indicate in our budget letter we would be looking at that as
11 far as when we're sizing this next bond sale. Hopefully
12 in -- by Thanksgiving we'll be back in the market. So we're
13 the ones that kind of coordinate with the Treasurer's Office
14 and our office on just trying to determine a statewide basis
15 what to include in the GO bond sale. Obviously it's not
16 only education bonds, it's, you know, resources. It's all
17 the different agencies that proposition.
18 So to the extent we're issuing money or selling
19 bonds that -- and the money's sitting there in the treasury
20 not being used, the State general fund is paying debt
21 service on those bonds. So it's incurring a cost. We're
22 paying, you know, I don't know how much it would be for
23 this, but if you have $800 million sitting there and if you
24 assume they issues the bonds about 5 percent interest you're
25 paying on that, you know, it's 40 million a year roughly

1 that we would be paying that could be used for other general
2 fund purposes.
3 So to the extent from a general fund perspective,
4 if you aren't using those proceeds in a timely manner, it is
5 costing the State to pay the debt service on that. Kind of
6 from our -- you know, and also I think it is -- you're on
7 the track as far as looking and try to somehow line up and I
8 know it sounds like there are other program problems here,
9 but trying to line up when you need the cash. So ideally
10 you'd want to sell the bonds and then you'd want to start
11 drawing on that money right away instead of just having the
12 money sit there in the treasury and I think you guys sound
13 like you understand that problem.
14 But that's ideally how we try to shift the other
15 programs -- or try to work with them to understand that and
16 try to, you know, use the money in that manner.
17 CHAIRPERSON BRYANT: Yes. Ms. Moore.
18 MS. MOORE: Mr. Rogers, have you -- in working
19 with all the programs, have you seen any like -- I think it
20 was written as Option 4 in our book, but it's more acting --
21 you know, it's this issue of apportioning more cash than
22 actually we have and the risk factor there and working with
23 that. Have you seen any -- is that a viable mechanism
24 because it helps us with our short-term issue.
25 MR. ROGERS: I really -- I mean I really can't

1 address that question. I'm sorry --
2 MS. MOORE: Okay.
3 MR. ROGERS: -- on that, so --
4 CHAIRPERSON BRYANT: Okay. So one of the
5 things -- I just totally lost my train of thought. Do you
6 have another question? It really just --
7 MR. HARVEY: Well, while you're gathering your
8 thought --
9 CHAIRPERSON BRYANT: Yeah.
10 MR. HARVEY: -- he may not choose to answer given
11 what he just said, but I was going to say if you were the
12 OPSC wizard and you had 600 million in cash, and you've
13 heard the fact that some portion of that is expiring in
14 December and this need to get money out to
15 construction ready -- project-ready activity, how would you
16 do it? Would you have a game plan? You've heard short-term
17 options. You've heard about the Pooled Money Investment
18 Board model, which I think is intriguing. Can you give me
19 a --
20 MR. ROGERS: I think I do --
21 MR. HARVEY: -- 40,000 view level of how you might
22 do it.
23 MR. ROGERS: I think ideally you'd want to get
24 information from each of the school districts on the
25 projects that have been approved or pending and where

1 they're at as far as the ability to let contracts and start
2 using that money and somehow trying to line up I would come
3 more vertically when those districts would be in or when
4 they could use the money and try to line up your cash
5 projections and how the cash would be used in that manner.
6 So it'd be kind of like -- I don't know if we'd call it
7 first in, first out or something like that so the projects
8 or schools that are ready to go that they can demonstrate
9 that, that they're ready to start -- need to grant or can
10 start using the money. Somehow you'd line those up first
11 and do a projection with all the other ones that would fall
12 down lower.
13 CHAIRPERSON BRYANT: I think it might be, you
14 know, illustrative for people to understand that what we do
15 internally at the Department is, is that everyone knows our
16 expert genius, Chris Ferguson, who's sitting back here. You
17 know, Chris works with OPSC and they look at the unfunded
18 list and then that's what goes to Mr. Rogers' unit as
19 they -- that's how they look at our needs and then they
20 review our cash. They look at what our needs are and that's
21 kind of how they make sizing determinations for the bond
22 program.
23 And one of the -- I think that you hit on
24 something that's really important and it's something that
25 we've never really required of districts and we've been

1 frustrated all year not knowing this information, but we
2 really don't know what the school's thinking and it's
3 because we've never needed to know because we've always
4 apportioned and then you have 18 months to do your cash
5 draw-downs and the staff was able to kind of do some rough
6 estimates on cash just looking at what the take-rate had
7 been over the previous 18 months and, you know, generally
8 worked out and if we -- you know, then we just went to the
9 PMIB and got a loan to cover it and we sold a certain number
10 of bonds to cover our PMIB loans.
11 So I think one of the things we should explore is
12 how can we get more information from districts and is that,
13 you know, too burdensome? Is it something -- it's something
14 no one's ever had to do. We could assess districts interest
15 by when they turn in their 5005 or whatever the number is
16 and I think that that would be one -- you know, one
17 direction for us to go so that we're -- we really know, so
18 that when, you know, the staff is DOF is helping the
19 Treasurer's Officer size the bond, we are sizing ourselves
20 based on actual cash needs and -- as opposed to right now we
21 really do it based on who's on an unfunded list and we're
22 just trusting that they're ready to go. But they aren't
23 necessarily because they have 18 months to do it. It's
24 no -- the district hasn't done anything wrong, but they've
25 put a request in the way our programs worked.

1 And I think maybe we need to think about making
2 that conversion where our list is -- we understand better
3 about who is ready to go. And we can know a little bit. We
4 know more now because we have $1.2 billion -- we had
5 $1.2 billion of requests in the previous priorities funding
6 round and that reflects people that are ready to go in 90
7 days. And so that helps us, but are there other things --
8 other information we could ask the districts for and is it a
9 burden.
10 MR. ROGERS: Also I know that programs that
11 resource agencies, a lot of them do a lot of grants under
12 those and I know they've gone to more of a conditional grant
13 award where before they'd do a grant, basically they're
14 giving money right then. Where they've done a conditional
15 award, you get a conditional grant, and then once we have
16 the money, then we'll provide you the funding, but I don't
17 know if that works in this program. And other ones are
18 basically, you know, the big State agencies and kind of what
19 I do on my board is we're looking -- we're managing each
20 individual project so we do know the timing of the projects
21 and we're trying to time it more. So the more information
22 you have, that'd be kind of helpful too.
23 CHAIRPERSON BRYANT: We have like -- here we have
24 ten times the projects we have at PWB.
25 MR. ROGERS: Yeah. I've seen the list of projects

1 when I get them in my unit. Yeah, there's a lot. That' for
2 sure.
3 CHAIRPERSON BRYANT: Any other questions for Greg?
4 ASSEMBLY MEMBER BUCHANAN: It seems to me that we
5 have sort of two issues that we're dealing with. One I
6 think is the immediate issue of how can we get more money to
7 projects to get them to bid so schools get their projects
8 done and contractors have business and people who are
9 unemployed get out to work and the other question we have I
10 think probably is going to merit more discussion and that
11 is, you know, in terms of what our criteria is for how you
12 move from list to the other and the time frame, you know, is
13 that still realistic. Is that how we should be, you know --
14 is that what we should be doing? I mean because we get into
15 that should it be 18 months, should it be 12 months, you
16 know, how are we making these decisions.
17 So maybe what we ought to do is focus on what we
18 can do short term in terms of cash flow management or
19 whatever to get more money out and then also then take a
20 look long term in terms of, you know, the rules have changed
21 over time, why did they change, and is there something we
22 should do. I mean should we have some modifications so we
23 get more information or we're sure that once a project moves
24 onto the funded list that they -- it's ready to go.
25 CHAIRPERSON BRYANT: Yeah. Good points.

1 MS. MOORE: I would just say on the more
2 information, that will be helpful in the short term
3 potentially, but I agree with Assemblywoman Buchanan in that
4 the long term, while it has been a very well functioning
5 part of our regulation, the 18 months, I actually think
6 because of the changed landscape that we have to look at
7 that. And so there's the long-term issue and that will be
8 one of how we manage the cash and the needs of school
9 districts so that we are always well positioned in this
10 program to receive any -- our share of limited
11 infrastructure bonds.
12 So I think there is the long term and we're going
13 to need to address that and it's going to, you know, need to
14 be a lot of people at the table with great minds thinking
15 about that, but knowing our landscape has changed. I think
16 our short term is the 600 million, 200 of which is really
17 short term in that it's going to be done in January, either
18 out on the street or back to us and then we have the
19 probably about 300 million nut, so to speak, that we should
20 really try and deal with to work both for districts and for
21 our cash flow needs.
22 CHAIRPERSON BRYANT: And we also have the --
23 hopefully -- knock on wood -- we have a bond sale in
24 November. Hopefully there'll be something for our program
25 and, you know, we don't know what -- how we're going to do

1 yet. So --
2 MS. MOORE: Yeah.
3 CHAIRPERSON BRYANT: -- we're -- we need to be
4 poised in how we're going to handle that too, so -- all
5 right. I think --
6 MR. ROGERS: And typically we do have bond sales
7 every fall and every spring. I think December 2008 was the
8 one time we did not have a long-term GO bond sale as far as
9 I can remember also. And the other point I'd like to make
10 too is for the AB55 loan program that the Pooled Money
11 Investment Board -- I don't -- based on my conversations
12 with Treasurer staff, I don't see that ever changing for the
13 GO bond program. They're pretty want agencies to use the
14 bond proceeds. So it's kind of a permanent change. I don't
15 think it's going to go back to the way it was unfortunately.
16 CHAIRPERSON BRYANT: Okay. Thank you. Can you
17 stick around in case we have questions.
18 MR. ROGERS: Yeah.
19 CHAIRPERSON BRYANT: All right. We just have a
20 half hour more on this. So any additional public comment at
21 this point? Anything -- okay. Well, maybe -- so what are
22 we -- what --
23 MS. MOORE: Well, is Option 4 viable? I mean is
24 it workable?
25 CHAIRPERSON BRYANT: Well, I think -- I actually

1 think Option 4 is viable. I think what we -- we need to do
2 a little more legal work on it because I think part of our
3 issue is, is what is the nature of the promise that was made
4 to those districts that are on the 600 -- who have been
5 apportioned the 600 and that scenario is what happens if a
6 district that's on that 600 comes in to get the cash and for
7 some reason we've run it all through.
8 And I think what we have to do is just maintain a
9 healthy reserve and look at short-term borrowing options,
10 but it's possible that, you know, we have -- that we would
11 have that available to us, although it's complicated and
12 we're not a hundred percent sure how that would work. But I
13 think that Option 4 is -- you know, is possible and I think
14 that we -- I mean I'm sort of hearing a consensus amongst
15 the four of us that trying to see if we can do that would be
16 really worth the effort of taking it back to the Board
17 and -- you know, and if we can jiggle our schedule around a
18 bit, we would also have the bond sale at the end of November
19 to help -- we can make adjustments and make sure we have
20 adequate cash reserves for all those people on the list, but
21 we -- I think that we have in front of us the ability to do
22 a very healthy, you know, priorities round. I can't
23 remember. Are we going to do -- are we scheduled to decide
24 the amount in November or are we deciding the amount in
25 December?

1 MR. MIRELES: November. Right now it's
2 November -- cash is in November 3rd.
3 CHAIRPERSON BRYANT: Okay. So we're going to
4 decide the amount and then we would actually do the
5 apportionment in December?
6 MR. MIRELES: Yes.
7 CHAIRPERSON BRYANT: Okay. And so that's why if
8 we had a little bit of extra time, we could probably
9 apportion everything, including the new bond sale or --
10 MR. MIRELES: Yeah. If the Board extends -- for
11 example, right now the certification period ends
12 November 7th or 8th -- extend it for another month and then
13 in December make apportionments based on the cash that's
14 available as of whatever date the Board decides. So instead
15 of -- yeah, instead of November 3rd, cash available as of
16 December 5th or whatever new date -- can use all of that
17 cash potentially for the next priorities in funding round.
18 MS. MOORE: Well, I for one would really support
19 Option 4. I think it's the -- if we can make it viable
20 because it causes the least angst I think both on staff and
21 on school districts in that we're still maintaining the
22 integrity of the list and yet we're extending the time. We
23 dealing with the short-term issue and then I think we also
24 need to -- we've made a statement as a Board around the
25 long-term issue. We have the priorities in funding, but I

1 think that we really need to tackle that in greater detail
2 around the 18 months so that our program is in sync with the
3 reality of how cash is flowing to infrastructure projects in
4 California.
5 ASSEMBLY MEMBER BUCHANAN: And I agree entirely
6 with that. I think Option 4 is the cleanest option. It
7 allows us to get out more money and then we can a thoughtful
8 decision on the other without having districts feel like
9 we're changing rules on them midstream.
10 CHAIRPERSON BRYANT: Mr. Duffy has returned to the
11 table.
12 MR. DUFFY: I don't know that I missed any
13 discussion, but could we ask Mr. Mireles if he could just
14 walk us through Option 4 and all that it entails.
15 CHAIRPERSON BRYANT: Sure.
16 MR. MIRELES: We talked a little bit about it, but
17 basically the Board would be making apportionments for
18 projects more than the cash that's available. Say there's a
19 bond sale for 600 million. The Board could make
20 apportionments up to say 800 million. So the Board would be
21 apportioning more projects than cash available. That's the
22 basic premise of Option 4. It's not just using exactly the
23 cash amount that's available, but making apportionments
24 beyond the cash that's available.
25 MR. DUFFY: Okay. And these would be real

1 apportionments.
2 MR. MIRELES: Yes.
3 MR. DUFFY: So that they're alive. The district
4 comes in. The funds are available.
5 MR. MIRELES: Yes.
6 MR. DUFFY: So there's a risk involved here and I
7 appreciate the fact that you're willing to do this. You and
8 I had a discussion I think several months ago about the
9 concept and I think that that is a positive thing for the
10 Board to consider.
11 CHAIRPERSON BRYANT: I mean the risk is, is that
12 for some reason that we miss -- we make -- we don't make a
13 correct guess and we end up with, you know, District X comes
14 in for its cash and that's the day that our bank account is
15 dry and our next bond sale isn't for two months and that --
16 you know, that's what we don't know the answer to that
17 question. How much cash reserve do we need to maintain. Do
18 we have a short-term borrowing option, which we may, which
19 through the State Treasurer's Office. So we -- what can we
20 do in those -- in that fact setting I think is -- and that
21 is something that we've not -- because we just haven't had
22 to face it. And Kathleen's right, we're at a point where we
23 have to face the facts. I mean Greg just said it. The
24 Treasurer's Office is clear. I was -- we just voted on a
25 new policy at the Pooled Money Investment Board which I

1 happen to sit on and we -- there is not going to be an AB55
2 program for general obligation bond programs like ours. It
3 just isn't going to happen anytime in the near future. You
4 know, that's it. It's over for the -- for any foreseeable
5 future.
6 So how can we manage our cash better and get more
7 projects out? And so I think that's -- we're just at that
8 point. But we do have that risk of the day that our bank
9 account's at zero, District X is asking for its $10 million.
10 What is the nature of the promise we've made to District X.
11 What is the liability that the State may face, and those --
12 we have to know the answer to those questions so that we
13 don't create additional liability and we also don't
14 create -- I mean what about District X? They're ready to go
15 to contract and they don't have the cash that they're
16 expecting from the State. You know, everybody's in a bad
17 situation and that's the situation that a lot of projects
18 were in in December of 2008 and we don't want to repeat that
19 and we have to have a complete understanding of what all of
20 that is.
21 And we didn't think we would ever -- we always
22 assumed that we would be able to go back to the old system
23 where it didn't -- if we got to that point, we just went
24 over to the Pooled Money Investment account and did a little
25 borrowing and we don't have that anymore. So we just have

1 to answer those questions.
2 MR. HARVEY: Two quick comments if I might. I'm
3 not an attorney. We have others who are. But it seems to
4 me one concept you can consider in building this risk model
5 is to say something like if you happen to be District X and
6 you happen to come in and there is no cash, tragically you
7 shall be at that point considered an unfunded project. It's
8 just by fiat. There's no decision made. You go back to
9 where you were before and then you don't lose your place in
10 line and when the cash comes in, suddenly you're no longer
11 on the unfunded -- one thing to consider.
12 The other issue I want to just clarify in my own
13 mind. I love the model for the reasons you've articulated,
14 Juan, on Option 4. What I'm assuming is that given the
15 depth of folk who are ready to go within 90 days, we're
16 saying that by doing this we'll have enough people drawing
17 the money down quickly and they're not just getting another
18 clock to run 18 months and we're not actually moving the
19 money. I didn't hear that 90-day time frame. Are we
20 assuming that there's just enough pent up need that it would
21 automatically happen because otherwise it doesn't fit the
22 other goal of you've got to be ready in 90 days or you don't
23 get the money.
24 MS. SILVERMAN: That was the goal is to continue
25 on the 90-day pilot program --

1 MR. HARVEY: I didn't hear that.
2 MS. SILVERMAN: -- to extent that. Yeah.
3 MR. HARVEY: So it would be -- that's all part of
4 it and I love it.
5 CHAIRPERSON BRYANT: And I think the Board -- I
6 think at the last Board meeting that the entire Board was
7 very clear on wanting to apportion from this point forward
8 on a priorities in funding basis; that I think that we've
9 adopted the permanent regulation to be able to open a round
10 anytime, you know, we decide to do that and I think -- I
11 didn't sense that there was a single dissenter on the Board
12 that didn't think that was an appropriate thing to do.
13 Now I do think we have an obligation to ask -- to
14 discuss a little bit this question of health of safety and
15 how are going to handle that and I think we brought up
16 environmental hardship. We have the charter schools. There
17 are some other little things -- little funky pots that need
18 to be worked into this system somehow that we have to figure
19 that part out as well. And maybe they somehow or another --
20 I don't know -- mind set. We have to think about that
21 because I think that they're not in the -- it's so easy on
22 the -- just the normal everyday project. You know, you're
23 just on the list. You know, you move through and we don't
24 have policy decisions to make on those, but --
25 ASSEMBLY MEMBER BUCHANAN: Well, given that it

1 seems like there's consensus around Option 4, would it be
2 reasonable then to have staff take a look at, okay, if we
3 wanted to proceed with this, how might we proceed in a
4 rational way?
5 CHAIRPERSON BRYANT: Yeah. I think that's exactly
6 what we should do.
7 MR. DUFFY: Is there something on the agenda for
8 next week relatively to this for discussion?
9 MR. MIRELES: Yes.
10 MR. DUFFY: So you will have an opportunity to do
11 something next Wednesday.
12 CHAIRPERSON BRYANT: Yeah. We're intending to set
13 the amount of money for the next priorities round and I
14 think we'll work on this notion of extending the deadline,
15 moving the December Board meeting one week so that we can
16 have -- we can apportion the new bond sale should we be so
17 lucky, and we can apportion any of the amount of the cash
18 that's in the account that we think we can use and plus any
19 of the rescissions that we get in December -- in November
20 and December. So we should be able to foster together a
21 really large infusion of cash to put into this priorities in
22 funding round and, you know, we can encourage districts --
23 maybe you could help us a little bit with this too is
24 encourage districts to think about whether or not they can
25 go to contract in 90 days and if they want to participate,

1 you know, by indicating their interest and we'll give them
2 more time to do so. We, you know, can really a big push in
3 the first three months of 2011, have a very active building
4 program.
5 MR. DUFFY: You had asked last spring if we would
6 query districts and we did that survey. If that's something
7 that you think would be helpful, we can try to do that
8 again.
9 CHAIRPERSON BRYANT: We know a lot. I mean we
10 know because we had the 1.2 billion. We know an awful lot
11 about there's a lot of unmet need I think, but we'd want to
12 have everybody help us with this really encouraging everyone
13 to once again go through their -- you know, their projects
14 and see if they're ready, if they can get to contract, and
15 they -- the 90 days won't start until December 15th. So
16 right now they have 120 or 145 days to -- if a district
17 today knows, they can go to contract in about 145 days, they
18 ought to start dusting it off and get going because there'll
19 be a lot -- if we can get this to work, we'll have a lot of
20 cash to put out in short order.
21 MR. DUFFY: Okay. Thank you.
22 CHAIRPERSON BRYANT: Thank you. I just -- I do
23 really want to -- Barbara, I was wondering if you could just
24 really quickly just for the benefit of anybody on the
25 Webcast and anyone in the room, just update us on the

1 priorities round that's going to end. You know -- I know
2 you know down to the project where we are. This is the
3 408 million.
4 MS. KAMPMIENERT: Right. Actually that program
5 has been very successful. I think we're down to three
6 districts that have yet to submit their fund release;
7 however, we're anticipating receiving two of them today
8 because they were either being hand carried in or
9 overnighted to our office. So by the time we get back
10 there, those are probably already waiting for us. And then
11 the last one is coming in on Monday. So I believe at this
12 point we may have had a hundred percent success provided
13 those districts get that in.
14 MS. MOORE: That's just exemplary. So I --
15 CHAIRPERSON BRYANT: Well, and really the staff --
16 it's like browbeating them, but the staff really has done --
17 I mean Barbara's -- the whole staff at OPSC has been
18 personally calling these districts and encouraging them and
19 they know where every single one is. So I'm really,
20 really -- hopefully next Wednesday, we'll have that
21 announcement that we got a hundred percent. I don't think
22 that will always happen. We always expect that, you know,
23 that a district or two will drop off, but in this instance,
24 we've made it. We should, knock on wood, have a hundred
25 percent participation. So thank you.

1 MR. MIRELES: And just in case districts don't
2 know, when is the due date, Barbara?
3 MS. KAMPMIENERT: The due date is the 2nd, which I
4 believe is Tuesday.
5 CHAIRPERSON BRYANT: Tuesday. Okay.
6 MS. MOORE: And I would just -- I would end on my
7 comments with that I'm really appreciative of Cynthia and
8 the Department of Finance and the folks that are here today
9 and I hope that they really hear and see that the State
10 Allocation Board has done everything possible to deal with
11 this cash issue, to position us well for any bond sales this
12 fall and next year which is really important to our program
13 to move forward. So I appreciate that. I like that those
14 folks are in the room and see that this really is the intent
15 of the Board for obviously a Subcommittee of the Board, but
16 as we move forward to the full Board and that is our true
17 intent so that we are well positioned for infrastructure
18 dollars in California to go out to public schools that
19 really can use that money both well educationally and to
20 recover our economy.
21 CHAIRPERSON BRYANT: Scott.
22 MR. HARVEY: Well, as we sign off, I just want to
23 acknowledge that the most interesting thing about the
24 creation of public policy is that no one has all the answers
25 and I think you end up getting better results when you

1 listen to all the voices and have a common goal and I
2 certainly have enjoyed my time on this Board. I think it's
3 an important Board. I think making sure kids are safe in
4 schools is a very, very important part of why we all exist.
5 They are our future and I want to thank all of you for
6 informing me and making me a better participant on this
7 Board and I certainly think this work in particular, that is
8 getting money out quickly, is one of the most important
9 things we've done during my term and I want to thank you all
10 for being part of that.
11 CHAIRPERSON BRYANT: Assemblywoman Buchanan.
12 ASSEMBLY MEMBER BUCHANAN: Well, I just appreciate
13 the work everyone's doing and I'm excited about, for me,
14 joining the Board and hopefully, you know, continuing the
15 program and seeing it improve over time.
16 CHAIRPERSON BRYANT: Okay. And then so we'll
17 conclude then. I'll work with staff to bring an item. Do
18 you need more direction or are you --
19 MR. MIRELES: Yes. I'm clear on Option 4. Not as
20 clear on Options 1, 2 -- specifically Options 2 and 3.
21 CHAIRPERSON BRYANT: I think we had a consensus
22 that we're just going to work towards getting just putting
23 as much cash into priorities funding as we can without
24 doing, you know, 1, 2, or 3 particularly. Okay. Is that
25 right? Does anyone disagree with that? Okay.

1 All right. Well, then we're adjourned. Go
2 Giants.
3 (Whereupon, at 10:00 a.m. the proceedings were
4 recessed.)
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