

REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, April 15, 2015

ANNUAL ADJUSTMENT TO SCHOOL FACILITY PROGRAM GRANTS

PURPOSE OF REPORT

To adopt the annual adjustment in the School Facility Program (SFP) grants based on the change in construction costs pursuant to the Education Code (EC) and SFP Regulations.

DESCRIPTION

This item presents the State Allocation Board (Board) with the annual adjustment to the SFP grants based on the statewide cost index for Class B construction. Each year the Board adjusts the SFP grants to reflect construction cost changes. In January 2012, the Board adopted the Marshall & Swift (M&S) Eight California Cities index for 2012 and future years. Staff is presenting three alternate index options for the adjustment to the 2015 SFP grants and proposes bringing back a future item to discuss a more permanent solution moving forward in 2016 and beyond.

AUTHORITY

For the New Construction grant, EC Section 17072.10(b) states, "The board annually shall adjust the per-unhoused-pupil apportionment to reflect construction cost changes, as set forth in the statewide cost index for class B construction as determined by the board."

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

For Modernization funding, EC Section 17074.10(b) states, "The board shall annually adjust the factors set forth in subdivision (a) according to the adjustment for inflation set forth in the statewide cost index for class B construction, as determined by the board."

Government Code Section 66452.6 states:

(a)(1) An approved or conditionally approved tentative map shall expire 24 months after its approval or conditional approval, or after any additional period of time as may be prescribed by local ordinance, not to exceed an additional 12 months. However, if the subdivider is required to expend two hundred thirty-six thousand seven hundred ninety dollars (\$236,790) or more to construct, improve, or finance the construction or improvement of public improvements outside the property boundaries of the tentative map, excluding improvements of public rights-of-way which abut the boundary of the property to be subdivided and which are reasonably related to the development of that property, each filing of a final map authorized by Section 66456.1 shall extend the expiration of the approved or conditionally approved tentative map by 36 months from the date of its expiration, as provided in this section, or the date of the previously filed final map, whichever is later. The extensions shall not extend the tentative map more than 10 years from its approval or conditional approval. . . .

(2) Commencing January 1, 2012, and each calendar year thereafter, the amount of two hundred thirty-six thousand seven hundred ninety dollars (\$236,790) shall be annually increased by operation of law according to the adjustment for inflation set forth in the statewide cost index for class B construction, as determined by the State Allocation Board at its January meeting. The effective date of each annual adjustment shall be March 1. The adjusted amount shall apply to tentative and vesting tentative maps whose applications were received after the effective date of the adjustment.

(Continued on Page Two)

AUTHORITY (cont.)

SFP Regulation Section 1859.71 states,

The new construction per-unhoused-pupil grant amount, as provided by Education Code Section 17072.10(a), will be adjusted annually based on the change in the Class B Construction Cost Index as approved by the Board each January. The base Class B Construction Cost Index shall be 1.30 and the first adjustment shall be January, 1999.

The new construction per-unhoused-pupil grant amount, as provided by Education Code Section 17072.10(a), may be increased by an additional amount not to exceed six percent in a fiscal year, or decreased, based on the analysis of the current cost to build schools as reported on the Project Information Worksheet (Revised 05/10) which shall be submitted with the Forms SAB 50-05 and 50-06 and as approved by the Board.

SFP Regulation Section 1859.2 Definitions states, "Class B Construction Cost Index" is a construction factor index for structures made of reinforced concrete or steel frames, concrete floors, and roofs, and accepted and used by the Board.

SFP Regulation Section 1859.78 states, "The modernization per-unhoused-pupil grant amount, as provided by Education Code Section 17074.10(a), will be adjusted annually based on the change in the Class B Construction Cost Index as approved by the Board each January."

BACKGROUND

Statute requires an annual adjustment to the per-unhoused-pupil grant amounts of the SFP based on the change in the statewide Class B Construction Cost Index (CCI) each January.

The Board has considered three indices in the past:

- M&S Eight California Cities
- M&S Ten Western States
- Sierra West Current Construction Cost Index*

The Board has made the CCI adjustments according to the M&S Eight California Cities Index every year since 2009. At its January 2012 meeting, the Board expressed a preference for the M&S Eight California Cities index as the permanent index because it is the only Class B index that uses exclusively California cities to capture material and prevailing wage costs in California. The Sierra West Current Construction Cost Index uses data from up to 20 U.S. cities nationwide, two of which (San Francisco and Los Angeles) are in California. As its title suggests, the M&S Ten Western States uses data from 10 western states.

Neither the M&S Eight California Cities nor the M&S Ten Western States indices have been made available to the Office of Public School Construction for 2015. Therefore, Staff is presenting three alternate indices as options for the Board's consideration for the 2015 CCI adjustment.

Pursuant to Government Code Section 66452.6(a)(2) as set forth above, the Board's CCI adjustment determination also changes the threshold amount of public improvement costs that triggers an extension of the expiration of tentative maps. The Board's January 2014 CCI increase of 1.74 percent raised this threshold sum to \$257,792 for the period of one year commencing March 1, 2014.

*The Sierra West Group was the prior publisher of the Lee Saylor Index through 2014.

STAFF ANALYSIS/STATEMENTS*2015 CCI Adjustment Options*

Staff is presenting the following three indices as options for the Board's consideration for the 2015 CCI adjustment:

- Sierra West Current Construction Cost Index
- Engineering News-Record (ENR)
- RS Means

All three indices appear to meet the SFP definition of a Class B Construction Cost Index. A brief description of each index appears in the Attachment.

The current rate of change between 2014 and 2015 for the three indices is included below.

Index	Sierra West Group	Engineering News-Record (ENR)	RS Means
Rate of Change 2014 to 2015	4.37% Increase	1.30% Increase	0.78% Increase

However, Staff believes that when switching indices it is more accurate to go back and re-calculate the grant amounts as if each index was used each year beginning in 1999.

The table below shows the rate of change from the 2014 SFP grant amounts to the 2015 grant amounts by entity, after re-calculating the grants using each index from 1999 forward.

Index	Sierra West Group	Engineering News-Record (ENR)	RS Means
Approximate Rate of Change Compared to 2014 Grant amounts (re-calculated from 1999 to 2015, based on K-6 grant amount)	3.24% Increase	-9.56% Decrease	4.27% Increase

*Percentage change varies slightly per grade level due to rounding.

The following chart shows the resulting new construction per pupil grant adjustment for each index available for consideration by the Board, after re-calculating from 1999 to 2015 (showing the 2014 grant amount for comparison):

Resulting New Construction Pupil Grants			Resulting Base Grants		
			Sierra West Group	ENR	RS Means
Grade Level	Regulation Section	Current Adjusted Grant Per Pupil Effective 1-1-14	Proposed Grant Per Pupil Effective 1-1-15	Proposed Grant Per Pupil Effective 1-1-15	Proposed Grant Per Pupil Effective 1-1-15
Elementary	1859.78	\$9,921	\$10,243	\$8,972	\$10,345
Middle	1859.78	\$10,491	\$10,834	\$9,490	\$10,942
High	1859.78	\$13,347	\$13,785	\$12,075	\$13,923
Special Day Class – Severe	1859.78.3	\$27,873	\$28,783	\$25,213	\$29,070
Special Day Class – Non-Severe	1859.78.3	\$18,640	\$19,250	\$16,862	\$19,442

(Continued on Page Four)

STAFF ANALYSIS/STATEMENTS (cont.)

The following chart shows the resulting modernization per pupil grant adjustment for each index available for consideration by the Board, after re-calculating from 1999 to 2015 (showing the 2014 grant amount for a point of comparison):

Resulting Modernization Pupil Grants			Resulting Base Grants		
Grade Level	Regulation Section	Current Adjusted Grant Per Pupil Effective 1-1-14	Sierra West Group	ENR	RS Means
			Proposed Grant Per Pupil Effective 1-1-15	Proposed Grant Per Pupil Effective 1-1-15	Proposed Grant Per Pupil Effective 1-1-15
Elementary	1859.71	\$3,778	\$3,900	\$3,416	\$3,939
Middle	1859.71	\$3,996	\$4,126	\$3,614	\$4,167
High	1859.71	\$5,230	\$5,401	\$4,731	\$5,455
Special Day Class – Severe	1859.71.1	\$12,035	\$12,431	\$10,889	\$12,555
Special Day Class – Non-Severe	1859.71.1	\$8,052	\$8,316	\$7,284	\$8,399

In addition, the adopted CCI adjustment would change the threshold amount for Government Code Section 66452.6(a)(2) for the period of one year commencing March 1, 2015. The current amount is \$257,792. Depending on which index the Board adopts, the resulting threshold amount would be as follows:

	Sierra West Group	Engineering News-Record (ENR)	RS Means
Resulting Amount	\$263,257	\$252,802	\$260,473

The threshold amounts were calculated based on rate of change in each specific index from year to year, from 2012-2015

Conclusion

Staff has reviewed the three indices and recommends that the Board adopt the RS Means index for the 2015 grant adjustment for the following reasons:

- RS Means uses 12 cities in California, Sierra West and Engineering News record only include 2 California cities
- RS Means uses more construction materials when looking at costs for its index (66 instead of 23 as compared to Sierra West)

Based on the reasons above, the RS Means index is the Class B index most reflective of construction costs in California.

Next Steps

Staff also proposes presenting an item to the Board in the future to discuss adopting an index on a more permanent basis for use in 2016 and future years.

(Continued on Page Four)

RECOMMENDATIONS

1. Adopt an increase for 2015 SFP grants based on the RS Means Construction Cost Index.
2. Direct staff to return with a conforming consent item at the next Board meeting showing all SFP grants adjusted based on RS Means data.
3. Direct Staff to bring back an item to the Board for discussion on adopting a new index on a permanent basis for 2016 and beyond.

BOARD ACTION

In considering this Item, the Board directed staff to make available the 2015 SFP grant adjustments to stakeholders and approved the following:

1. Adopted an increase of 4.27 percent for the 2015 grants based on the RS Means Construction Cost index. It was noted that the increase does not impact the projects on the Unfunded List (Lack of AB 55 Loans); and
2. Directed staff to bring back an item for the Board to discuss for adoption of a new index on a permanent basis for 2016 and beyond.

ATTACHMENT A
 CONSTRUCTION COST INDEX
 INDICES COMPARISON
 State Allocation Board Meeting, April 15, 2015

Indices	Sierra West Group Construction Cost Index	Engineering News Record (ENR)	RS Means
Cities	20 U.S. Cities, 2 in California	2 California Cities	12 California Cities
Materials Used	Average based on 23 key construction materials in 20 cities, throughout the U.S.	Average based on 3 types of materials using spot pricing from a single source in each city.	Based on 66 common construction materials in 12 cities. Material prices are obtained from building material suppliers in 113 cities across the United States and Canada.
Labor Used	Average of labor based on quotes for 9 union crafts in 16 cities across the U.S.	Average of city wage fringe labor rates are tracked for bricklayers, carpenters, and structural iron workers.	Union labor.
Wage Rates	Union.	Unknown	Union or prevailing wages are used depending on the location. Building Trades Councils or Davis Bacon wage determinations are also used.