

REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, June 22, 2005

RESIDUAL MODERNIZATION GRANTS

PURPOSE OF REPORT

To present an update regarding the use of residual modernization grants at school sites other than the site that generated the modernization eligibility.

DESCRIPTION

At the May 3, 2005 State Allocation Board (SAB) meeting, in response to the Board's request, Staff presented a report discussing the possible use of residual modernization grants on school sites that had not generated the eligibility (see Attachment). The term "residual" was defined as the remaining unused per-pupil grant eligibility remaining on a school's modernization eligibility baseline after a modernization project was completed. The Board accepted the report, but requested that the issue be discussed further by the SAB Implementation Committee.

STAFF COMMENTS

The SAB Implementation Committee was presented with the report, and briefly reviewed the issues and concerns identified. The concerns varied from not supporting moving the residual modernization grants to other sites to allowing the grants to be transferred to allow greater flexibility in meeting facility needs. Committee members expressed concern about discussing the issues before the currently proposed legislation (Assembly Bill 1300) had been passed. The Committee concluded that it would be more appropriate to first allow the legislative process to address any residual modernization grants issues and, if necessary, bring back the item for discussion after the legislative process has been completed.

RECOMMENDATION

Accept this report.

In considering this item, the State Allocation Board on June 22, 2005 accepted the report.

ATTACHMENT

REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, May 3, 2005

RESIDUAL MODERNIZATION GRANTS

PURPOSE OF REPORT

To present a report to the State Allocation Board (SAB) regarding the utilization of residual modernization grants on school sites other than the site that generated the modernization eligibility.

BACKGROUND

At the February 2005 SAB meeting, the Board requested information regarding remaining modernization grants that were not utilized by the school district for its modernization project and the viability for a district to use these residual grants at other school sites that did not generate the eligibility.

AUTHORITY

Education Code Section 17074.25 states, "A modernization apportionment may be used for an improvement to extend the useful life of, or to enhance the physical environment of, *the school* (emphasis added)."

SFP Regulation, Section 1859.79.2 cites that modernization funding, with the exception of savings, is limited to expenditures on the specific site where the modernization grant eligibility was generated.

SFP Regulation Section 1859.103 states that a district may expend the savings not needed for a project on other high priority capital facility needs of the district. For non-financial hardship districts, SFP Regulation Section 1859.103 further states that the State's share of any savings from a modernization project may be used as a District matching share requirement only on another modernization project.

DESCRIPTION

The SAB, through the SFP, provides modernization funding on a site specific basis for districts with schools that qualify for modernization. To qualify, permanent buildings must be at least 25 years old and portables at least 20 years old. The eligibility is generated on a per building basis.

As a result of the following dynamics, various school districts have residual or additional modernization grants in their modernization baseline:

- Additional buildings on the site become of age (25 and 20 years) after the date when the original modernization baseline was established.
- Buildings that were previously modernized 25 years ago for permanent classrooms or 20 years ago for portable classrooms (i.e., under the Lease-Purchase Program) again become eligible for modernization funds.
- Increased enrollment at the site.
- School districts periodically complete modernization projects without utilizing all of the available modernization eligibility (pupil grants) generated for that site.
- The need to comply with the "60 percent commensurate" requirement, which will occasionally necessitate a reduction in the number of pupils used, to bring the ratio of actual construction work within 60 percent of the project budget. The regulations require school districts to maximize modernization grants by assuring that 60 percent of the grants being requested are being fully utilized for construction costs at the site which generated the grants. Early in the program, the Board was concerned that school districts were generating a substantial amount of savings, which were then being spent on other capital projects and were not being spent on the site that generated the grants.

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DESCRIPTION (cont.)

While a district may believe that they cannot move forward with a project because the amount of residual modernization pupil grants is minimal or because they believe the modernization work has been completed, a district has the ability of receiving additional modernization pupil grants, as described above. If the modernization eligibility was transferred to another site and the need arose to modernize a building at the original site, the district would not have any eligibility to modernize these facilities.

STAFF COMMENTS

A fundamental tenet at the conception of the SFP was that modernization eligibility generated at a specific site represented the actual need at that site. There was an emphasis when the program and regulations were developed that the modernization funds be spent at the site for which the eligibility was generated. It would be inequitable to use modernization grants generated at one site on another site, as buildings that generated the modernization eligibility will not qualify for modernization again for another 20 to 25 years. To allow the transfer of modernization grants from one site to another may benefit some schools while being detrimental to the useful life of the schools where the eligibility was established. In some cases, the schools receiving the "transferred" grants may be in effect receiving a duplication of SFP funds if that campus has already received its maximum modernization eligibility.

It has been claimed that districts have not utilized residual modernization eligibility in their baseline because the eligibility is not enough to move forward with a project. Staff has researched the number of projects that have been submitted to the Office of Public School Construction with less than 200 pupils, and have found that numerous small size projects have been submitted for funding since the inception of the SFP. The findings are as follows:

	Number of Projects	Range of Apportionments
Projects with 100 Pupils or Less*	353	\$2,722 to \$1,158,296
Projects with 101 – 200 Pupils	472	\$147,772 to \$1,979,746

* Smallest Project Funded was for One Pupil Grant (State Apportionment \$2,722)

There are provisions in the regulations that recognize a small project under 101 pupil grants. These regulations provide an additional small project allowance to address the economy of scale costs for a project based on a small number of pupil grants.

RECOMMENDATION

Accept this report.

BOARD ACTION

This report was accepted by the State Allocation Board on May 3, 2005, with a request that the issue be discussed further by the SAB Implementation Committee.