

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: August 2, 2010
POSITION: Oppose

BILL NUMBER: SB 1193
AUTHOR: A. Lowenthal

BILL SUMMARY: School Facilities Funding: High Performance School

This urgency bill would: (1) increase the amount of a School Facilities Program (SFP) modernization grant by \$250,000 and SFP new construction grant by \$150,000 per schoolsite contingent on a SFP modernization project containing specified high performance attributes as verified by attaining specified criteria; (2) require the State Allocation Board (SAB) to adopt regulations that provide an unspecified additional amount of modernization funding in excess of current modernization grant amounts; (3) specify the SFP High Performance Incentive Grant Program funding set-aside would fund the increased new construction and modernization grants; (4) reaffirm the current requirement that a local educational agency provide a local match of state bond funds with the exception of financial hardship districts; (5) explicitly authorize SFP Career Technical Education projects to be eligible for an increased SFP modernization grant if they meet the specified high performance criteria; and (6) require the SAB develop emergency regulations to implement this bill at the next SAB meeting.

FISCAL SUMMARY

This bill would provide a base \$250,000 incentive SFP modernization grant and a base \$150,000 SFP new Construction incentive grant from Proposition 1D general obligation bond funding authorized for the High Performance Incentive Grant Program (HPI). In addition, this bill would authorize the SAB to increase modernization grants by an unlimited amount for any eligible entity that exceeds the specified HPI criteria. While the actual cost of this bill is unquantifiable, this bill could create future K-12 school facilities bonds costs of approximately \$82.1 million (which would fund approximately 300 modernization \$250,000 base grants and approximately 50 new construction base grants) and K-12 general obligation bond cost pressures in the hundreds of millions to fund an expanded number of eligible facilities at a substantially higher SFP modernization grant level and also provide SFP new construction base grants of \$150,000. The HPI has approximately \$75 million in remaining Proposition 1-D bond authority and the SFP modernization program has approximately \$1.5 billion in Proposition 1D bond authority remaining and approximately \$440 million in SFP new construction bond authority remaining, which would each serve fewer projects if grant levels were increased.

The Office of Public School Construction and Division of the State Architect (DSA) would incur minor, but absorbable costs to develop administrative regulations and review additional SFP applications.

COMMENTS

The Department of Finance is opposed to this bill for the following reasons:

- This bill is unnecessary because the SAB recently revised Title 2 Leroy F Green Act of 1998 regulations to increase the base modernization amount by \$250,000 and the new construction modernization amount by \$150,000 from Proposition 1D funds allocated for the SFP High Performance Incentive Grant program. In addition, the SAB approved revised regulations that provide additional funding for modernization and new construction projects that meet SFP High Performance program regulatory thresholds.

Analyst/Principal Date Program Budget Manager Date
(0341) T. Todd Jeannie Oropeza

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

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- This bill could deplete available HPI and SFP modernization funding expeditiously while constructing fewer school facilities projects containing high performance attributes. We estimate a total of \$493 million in SFP modernization bond cost pressures if just 25 percent of the retrospective number of modernization projects constructed under SFP were to apply for an additional \$250,000 modernization grant. Prospectively, we estimate \$51.8 million in additional SFP modernization bond costs and \$30.3 million in HPI bond costs if 25 percent of the estimated number of remaining modernization projects that have yet to apply for funding were to request an additional \$250,000 base grant in addition to an adjustment pursuant to HPI.
- This bill would authorize the SAB to increase the SFP base modernization grants by an unspecified, but potentially significant amount. Increased modernization base grants have the potential to create future K-12 School Facilities bond cost pressures in the low to mid hundreds of millions to fund facilities at a substantially higher grant level.
- This bill could significantly diminish the original intent of the HPI by failing to specify a discrete minimum point threshold to qualify for grants. By allowing the SAB to decide a minimum level of points that would in turn qualify schools for a minimum modernization grant of \$250,000 or new construction grant of \$150,000, it is unclear whether the investment of these funds will achieve the intended level of high performance attributes.
- This bill usurps the authority of the DSA to review school facilities projects for compliance with applicable high performance standards by awarding funds to school districts based on private entities granting compliance certifications. Further, allowing private entities to certify projects have met their standards with concurrence of the DSA that the project met the private entities criteria, essentially provides private entities with the authority to award SFP funds.

ANALYSIS

A. Programmatic Analysis

Chapter 35, Statutes of 2006 and subsequently, voter approved Proposition 1D (2006), set aside \$100 million for incentive grants to promote the use of high performance attributes in new construction and modernization projects for K-12 schools and \$3.3 billion for SFP modernization projects. High performance attributes, as detailed in Subgroup 5.5 of Group 1 of Subchapter 4 of Chapter 3 of Division 2 of Title 2 of the California Code of Regulations are attributes that improve the environmental quality of facilities projects in the areas of sustainability, energy consumption, water usage, materials usage, and indoor environmental quality. These attributes provide students and teachers with high-quality learning environments that are environmentally friendly. The SAB has allocated approximately \$25 million of the \$100 million available for HPI grants and \$1.8 billion of the \$3.3 billion available for SFP modernization projects.

The purpose of the SFP new construction and modernization programs is to provide state assistance for the construction or modernization of school facilities. The SFP new construction and modernization programs currently require a local match of state funds (with an exception for financial hardship school districts) in order to provide an incentive for school districts to build efficiently (school districts may retain any SFP new construction or modernization project savings for use on future local school facilities needs).

This urgency bill would: (1) increase the amount of a SFP modernization grant by \$250,000 and SFP new construction grant by \$150,000 per schoolsite contingent on a SFP modernization project containing specified high performance attributes as verified by either attaining a specified number of High Performance points as determined by the SAB and verified by the DSA, or achieving "verified" California High Performance Schools status in accordance with the California Edition of the Collaborative for High Performance Schools with concurrence of the DSA; (2) require the SAB to adopt regulations that provide an

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unspecified additional amount of modernization funding in excess of current modernization grant amounts; (3) specify the SFP High Performance Incentive Grant Program funding set-aside would fund the increased modernization grants; (4) reaffirm the current requirement that a local educational agency provide a local match of state bond funds with the exception of financial hardship districts; (5) explicitly authorize SFP Career Technical Education projects to be eligible for an increased SFP modernization grant if they meet the specified high performance criteria; and (6) require the SAB develop emergency regulations to implement this bill at the next scheduled SAB meeting that is not within 10 days of the enactment of this legislation.

B. Fiscal Analysis

This bill would provide a base \$250,000 incentive SFP modernization grant and a base \$150,000 SFP new Construction incentive grant from Proposition 1D general obligation bond funding authorized for the High Performance Incentive Grant Program (HPI). In addition, this bill would authorize the SAB to increase modernization grants by an unlimited amount for any eligible entity that exceeds the specified HPI criteria. While the actual cost of this bill is unquantifiable, this bill could create future K-12 school facilities bonds costs of approximately \$82.1 million (which would fund 300 modernization \$250,000 base grants and 50 new construction base grants) and K-12 general obligation bond cost pressures in the hundreds of millions to fund an expanded number of eligible facilities at a substantially higher SFP modernization or new construction grant level. Retrospectively, we estimate K-12 School Facilities bond cost pressures of \$411.6 million if 25 percent of the number of modernization and new construction projects undertaken (5,375 modernization projects and 2,306 new construction projects have occurred since the inception of SFP), or approximately 1,300 modernization projects and 577 new construction projects, were to request an additional \$250,000 base grant or \$150,000 base grant respectively. In addition, these modernization projects would also qualify for an additional HPI grant that averages approximately 7.1 percent of the base modernization grant. If applied to 1,300 projects at an average base grant of \$1.82 million (excludes the additional \$250,000 base increase), this would create K-12 School Facilities bond costs of approximately \$168 million. Therefore, the total estimated K-12 Facilities bond cost pressures are in the hundreds of millions.

Prospectively, we estimate K-12 School Facilities bond costs of \$54.8 million if 25 percent of the estimated number of remaining modernization projects and new construction projects that could apply for a modernization grant [(estimate based on \$1.5 billion remaining at a cost of \$1.82 million per modernization projects), or approximately 207 projects (out of 825 total estimated modernization projects)] or a new construction grant [(estimate based on \$440 million remaining at a cost of \$5.4 million per new construction project, or approximately 20 projects (out of an estimated 82 total estimated new construction projects)] were to request an additional \$250,000 modernization base grant or \$150,000 new construction base grant. In addition, these modernization projects would also qualify for an additional HPI grant that averages approximately 7.1 percent of the base modernization grant. If applied to 207 projects at an average base grant of \$2.07 million (\$1.82 million plus \$250,000), this would cost approximately \$30.3 million. Therefore, the total prospective K-12 Facilities bonds costs are approximately \$82.1 million. The HPI has approximately \$75 million in remaining Proposition 1-D bond authority and the SFP modernization program and new construction program have approximately \$1.5 billion and \$440 million (respectively) in Proposition 1D bond authority remaining, which would each serve fewer projects if grants levels were increased.

The Office of Public School Construction and DSA would incur minor, but absorbable costs to develop administrative regulations and review additional SFP applications.

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)

AUTHOR

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP							
	RV	98	FC	2010-2011	FC	2011-2012	FC	2012-2013	
6350/Facil Aid	LA	No	-----	See Fiscal Summary	-----	-----	-----	-----	6057
1760/Dept Gen Svc	SO	No	-----	No/Minor Fiscal Impact	-----	-----	-----	-----	6057
<u>Fund Code</u>	<u>Title</u>								
6057	School Facilities Fund, 2006 State								