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226

Honorable Walter M. Ingalls
Chairman and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to Chapter 998, Statutes of 1981 (AB 114) and a request by the Joint Legislative Audit Committee, we are providing specific information about the State School Building Lease Purchase-Program (program). This letter provides information on the criteria for allocating funds to school districts and the cost of projects that are pending approval. This review was conducted under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code.

BACKGROUND

Section 17700 et seq. of the Education Code provides for reconstructing, remodeling, or replacing existing school buildings that are inadequate for instruction or that do not meet present structural safety requirements. The law also provides for procuring new school sites and constructing buildings. Two state bodies have certain responsibilities for this program. The State Allocation Board (board), which is composed of state officials and members of the Legislature, considers applications for lease-purchase projects, apportions school building funds, and establishes regulations, policies, and procedures for administering the program. The Department of General Services is responsible for administering the program and assists the State Allocation Board. The Office of Local Assistance, within the Department of General Services, provides staff assistance and support services to the board.

Honorable Walter M. Ingalls
Chairman and Members of the
Joint Legislative Audit Committee
April 30, 1982
Page 2

The board approves and funds building projects in three phases that correspond to the major steps in the building process. Phase I constitutes an authorization to develop preliminary plans, conduct soil tests, obtain appraisals, and perform other functions necessary to determine the feasibility of a project. Phase II permits the district to proceed with working drawings, specifications, and the purchase of building sites. Phase III provides the final approval required to award the project and begin construction. According to administrators from the Office of Local Assistance there is an average of from one to three years between the time an initial application is submitted and the date the project is completed.

CRITERIA FOR ALLOCATING FUNDS

To qualify for funding under the program, a school district must be making full use of all existing facilities and still not have sufficient space. State statutes establish the maximum building area for school districts based on students' average daily attendance. The maximum new building area for which a school district may apply is the difference between the district's maximum building area allowance and its existing building area. If a district's existing building area is less than its maximum allowance, the district is eligible for funding under the program.

All school districts that meet the above criteria qualify for funding by the program as long as sufficient funds are available. However, when the State Allocation Board determines that funding will be insufficient to meet the estimated funding needs of all districts, the board assigns priority points to each project application to establish a ranking based upon need. The board considers each project according to the number of priority points awarded to the application.

The State Allocation Board awards priority points according to the following five criteria; however, because of limited funds, the board is only using three criteria.

- It awards five priority points for each percent of the maximum allowable building area that may be included in an application for a new building;

Honorable Walter M. Ingalls
Chairman and Members of the
Joint Legislative Audit Committee
April 30, 1982
Page 3

- It awards one priority point for each percent of the maximum allowable building area that may be included in an application for a new building that will replace an inadequate building;*
- It awards one priority point for each percent of the maximum allowable building area that may be included in an application for reconstructing an existing building that was built at least 30 years before the date of approval of the reconstruction project;*
- It awards one priority point for each five percent increase in the difference between the current average daily attendance and the average daily attendance of five years earlier; and
- It awards one priority point for each month that a district's application has been awaiting approval.

The State Allocation Board has established a minimum number of priority points that project applications must have in order to be considered for approval. Although priority points are calculated for projects in Phase I, they are not currently used as a basis for Phase I funding. Instead, all projects are automatically approved for funding for Phase I. To be considered for Phase II funding, an application must have at least 60 priority points; for Phase III, at least 70 priority points are required. An official in the Office of Local Assistance estimates that a score of 60 priority points would indicate that a district had a space shortage of about 12 percent and that a score of 70 priority points would indicate a shortage of approximately 14 percent.

The Legislative Analyst has recommended that the board delete two of the criteria for awarding priority points. These criteria pertain to (1) awarding priority points for the length of time that an application has been awaiting approval, and (2) awarding priority points based on the percentage increase

* Because of insufficient funding, the State Allocation Board is not currently using this criterion.

in average daily attendance during the last five years. Recently, the board rejected the Legislative Analyst's recommendations to delete these two criteria. However, the board has proposed adding an additional criterion that would award one priority point for each 30 units of average daily attendance for which a district has inadequate space.

FINANCIAL DATA FOR EACH PROJECT PHASE

We reviewed the estimated cost of projects for each project phase as of April 1, 1982. Since the project costs for Phases I and II were not readily available, we estimated these costs based on those 68 projects that had been fully funded for all three phases. We calculated the average proportion of cost for each phase of the fully funded projects and then projected those proportions to the projects still pending approval. For these fully funded projects, approximately 2 percent of the funds were spent for Phase I and 6 percent for Phase II. Accordingly, we used these percentages to estimate the cost of projects pending Phase I and Phase II funding. Estimated project costs for Phase III were provided to us by the Office of Local Assistance. The following tables provide estimated costs for each project phase. At the time of our review, the board had not yet awarded priority points for projects pending Phase I approval. However, this information was available for Phase II and Phase III projects.

Table 1 shows the number of applications, the estimated Phase I costs, and estimated balance of total costs for the projects awaiting Phase I approval.

TABLE 1

ESTIMATED COST OF PROJECTS
 PENDING PHASE I APPROVAL
AS OF APRIL 1, 1982

<u>Number of Applications for Phase I Funding</u>	<u>Range in Priority Points</u>	<u>Estimated Phase I Costs</u>	<u>Estimated Balance of Total Project Costs</u>
35	Not Available	\$903,000	\$44,231,000

Table 2 shows the number of applications, the range in priority points, the estimated Phase II costs, and the estimated balance of total project costs. These projects are presently in Phase I and are pending Phase II approval.

TABLE 2

ESTIMATED COST OF PROJECTS
 PENDING PHASE II APPROVAL
AS OF APRIL 1, 1982

	Number of Applications for Phase II <u>Funding</u>	Range in Priority Points	Estimated Phase II Costs	Estimated Balance of Total Project Costs
	92	Over 120	\$ 3,333,000	\$ 50,725,000
	42	60 - 120	3,961,000	60,741,000
	<u>1</u>	--b	<u>7,000</u>	<u>82,000</u>
Subtotal ^a	<u>135</u>		<u>\$ 7,301,000</u>	<u>\$111,548,000</u>
	49	Under 60	4,123,000	63,046,000
Total	<u>184</u>		<u>\$11,424,000</u>	<u>\$174,594,000</u>

^a Reflects those projects eligible for consideration based on the board's current requirement of at least 60 priority points for Phase II.

^b Due to a structural failure in a building, the board will fund this application as an emergency project without computing priority points.

Honorable Walter M. Ingalls
 Chairman and Members of the
 Joint Legislative Audit Committee
 April 30, 1982
 Page 6

Table 3 presents the number of applications, the range in priority points, and the estimated costs for Phase III. These projects are presently in Phase II and are pending Phase III approval.

TABLE 3

ESTIMATED COST OF PROJECTS
 PENDING PHASE III APPROVAL
AS OF APRIL 1, 1982

	Number of Applications for Phase III <u>Funding</u>	Range in Priority Points	<u>Estimated Phase III Costs</u>
	40	Over 140	\$ 69,605,000
	<u>30</u>	70 - 140	<u>56,257,000</u>
Subtotal ^a	<u>70</u>		<u>\$125,862,000</u>
	<u>28</u>	Under 70	<u>38,883,000</u>
Total	<u>98</u>		<u>\$164,745,000</u>

^a Reflects those projects eligible for consideration based on the board's current requirement of at least 70 priority points for Phase III.

Honorable Walter M. Ingalls
 Chairman and Members of the
 Joint Legislative Audit Committee
 April 30, 1982
 Page 7

Table 4 shows the number of applications currently eligible for board consideration by project phase, the estimated costs for each phase, and the estimated balance of total project costs. The figures in the table below would change if the board changes the minimum priority point levels used to determine eligibility for funding or amends or deletes criteria for awarding priority points.

TABLE 4

ESTIMATED COSTS OF PROJECTS ELIGIBLE
 FOR BOARD CONSIDERATION BY PHASE
AS OF APRIL 1, 1982^a

<u>Project Phase</u>	<u>Number of Applications for Funding</u>	<u>Estimated Costs</u>	<u>Estimated Balance of Total Project Costs</u>
Phase I	35	\$ 903,000	\$ 44,231,000
Phase II	134	7,301,000	111,548,000
Phase III	<u>70</u>	<u>125,862,000</u>	<u>0</u>
Total	<u>239</u>	<u>\$134,066,000</u>	<u>\$155,779,000</u>

^a Currently, the State Allocation Board considers a project to be eligible for consideration if it has at least 60 priority points for Phase II and at least 70 priority points for Phase III. Points are not currently being used as a basis for consideration for Phase I funding.

It should be noted that these figures do not take into consideration that some projects could be eligible for funding for more than one phase within the same year. During our review of applications for funding, we also examined the intervals between various approval phases for 71 fully funded projects. The average interval between Phase I and Phase II approval was about five months; between Phase II and Phase III, the average interval was about six months. In many instances

Honorable Walter M. Ingalls
Chairman and Members of the
Joint Legislative Audit Committee
April 30, 1982
Page 8

school districts are submitting an application for more than one phase of a project within the same year. Consequently, not only would the board potentially consider the estimated \$134,066,000 in costs for the current phases of projects, but also a portion of the estimated \$155,779,000 balance of total project costs.

Respectfully submitted,



for THOMAS W. HAYES
Auditor General

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