Public School Construction – The Cost of Doing Business in California

Presentation to the Patterson Unified School District Board of Trustees

March 14, 2016

A Short History of How We Finance School Construction in California

- Prior to Proposition 13, June 1978
- Schools were generally built by local general obligation bonds requiring a 2/3 vote.
- The State School Building Aid Program provided assistance for "low wealth" school districts (districts with small amounts of assessed value) which were bonded to their debt capacity (a prudent debt level defined by code 1 1/4 % of assessed value for elementary and high school districts and 2 1/2 % for unified districts). These Debt Capacity limits still apply to today's elections.
- In order to qualify for state aid, a district had to show growth, and hold an election to accept a state loan and repay state loans by increasing local property tax. However, a cap on the total debt service kept lock debt service rates at a reasonable level. Loan was repaid over a 20 year period at which time any balance was forgiven.
- Fewer than 30 percent of California's school districts participated in this program.
- Proposition 13 enacted in June 1978 placed limits on property taxes equal to 1 percent of value, plus an additional amount for pre-existing outstanding local debt. Proposition 13 eliminated the ability of local agencies to issue bonds with 2/3 vote.

A Short History of How We Finance School Construction in California

- Major elements:

- Computation of state aid for individual districts simplified by being based on statewide average cost information modified grant program.
- Districts required to contribute 50 percent of cost of growth projects and 40 percent of cost of modernization projects.
- In order to qualify for hardship funding because of limited financial resources districts must demonstrate a conscientious attempt to raise local funding by trying to pass local bonds.
- In return for simplified modified grant program districts required to assume all liability for cost over-runs and problems discovered during construction process. State relieved of such liability.
- Modified developer fee provisions by (1) Suspending Mira/Hart/Murietta but (2) permitting districts to levy fees on residential developing above $1.50/sq. ft. These higher fees required a needs assessment, and (3) were limited to 50% of the cost of building to state standards, unless the state program is out of money.
- There exists general support for the new program. However, it does have flaws, the significance of which will not be quantifiable for a while. Namely, restrictions on the hardship program.

A Short History of How We Finance School Construction in California

- Subsequent to Proposition 13
- The Legislature and various administrations responded to school capital outlay needs by:
- Authorizing city and county governments to levy developer fees to provide interim housing (portable classrooms) for fast growing districts.
- Authorized constitutional amendment to restore ability of local government to pass local bonds by 2/3 vote (1984) or California Proposition 39, Supermajority of 55% for School Bond
- Proposition 13 allows districts to levy non-ad valorem taxes (Parcel Tax Elections) if two-thirds of the voters approve.
- Established Mello Roos community facility districts as alternative method of financing local infrastructure, including schools. Could be implemented by either landowner vote or 2/3 vote of built up community.
- Legislature, administrations and electorate authorized and passed $17.5 billion in state bond issues between 1982 and 1998 to finance state's share of K-12 school construction costs.
- Established major program for school facilities in 1986 to provide funding for growth projects and modernization projects.
- Authorized school district governing boards to levy developer fees for school construction $1.50 sq. ft. for residential property and $0.25 sq. ft. for commercial property. (Currently $3.48/sq. ft. for level I fees and $5.38 for level II fees and $0.56/sq. ft. commercial) Various court cases (known as Mira/Hart/Murietta) allowed districts to obtain mitigation above these amounts.
- Required that school districts commit developer fee revenues as local match in order to receive state funding.
- Legislature subsequently took many steps to make limited state bond money go farther, including giving highest priority for funding first to districts maintaining year round schools to avoid construction costs and subsequently to districts also funding 50 percent of the cost of projects.

Two Schools – Two Different States

St. Marys Elementary School – St. Marys, Georgia
Completed – 2010

- 100,400 sq. ft
- Buff-colored brick with two-stories, vaulted windows and archways based on archetypal low-country design/Cafeteria and Media-Library Center
- Cost $14,182,693
- Cost per sq. ft.: $141.26
- Cost per student (800 capacity): $17,728

St. Marys School

Two Schools – Two Different States

Walnut Grove School – Patterson
Completed – 2009

- 52,200 sq. ft
- Wood frame, stucco “finger wing” design with open hallways/Cafeteria and full gym
- Cost $28,942,883
- Cost per sq. ft.: $554.46
- Cost per student (820 capacity): $35,296

Walnut Grove School









Two Schools – Two Different States

"Arguably, California has one of the most elaborate state systems for financing and regulating public school construction and modernization projects in the entire country"

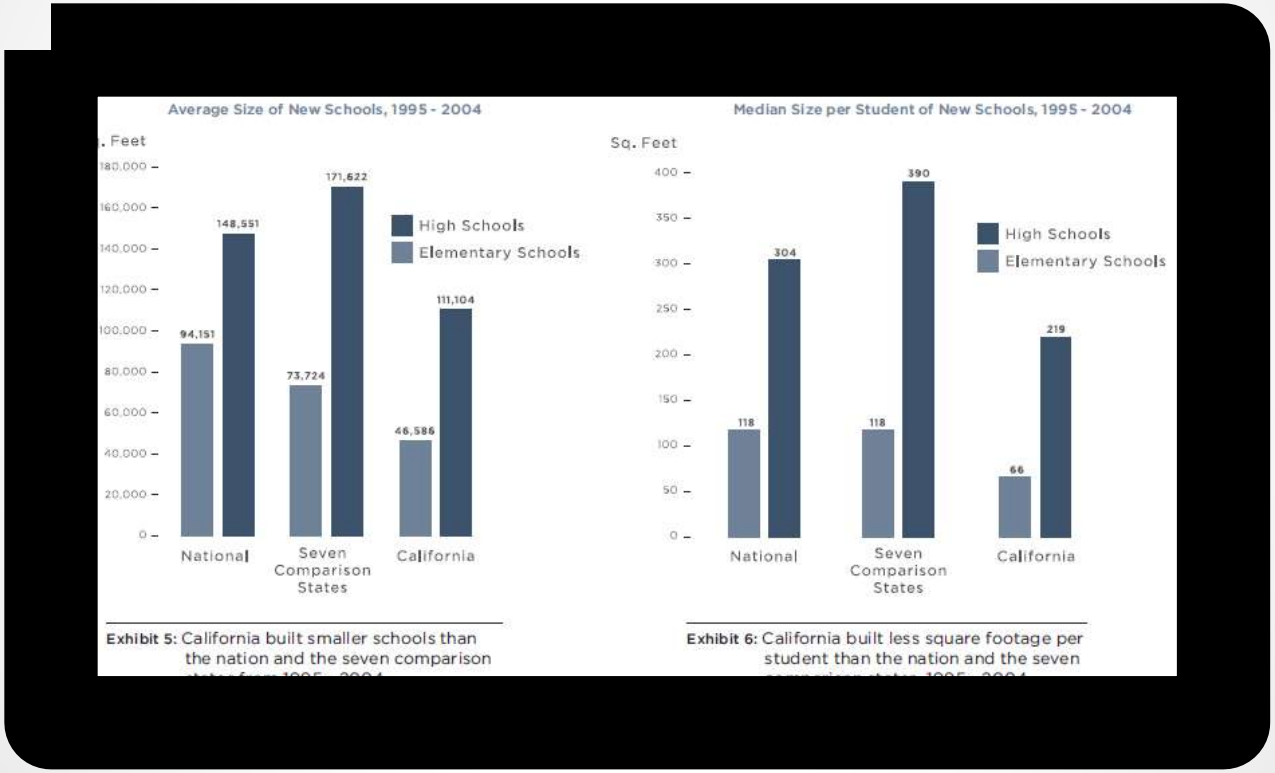
– The Complex and Multi-Faceted Nature of School Construction and Costs: Factors Affecting California. Research Findings, Center for Cities and Schools, University of California, Berkeley (June 2008)

Main Factors Driving Up Cost of School Construction in California

- School districts must navigate through a process of multiple and little-coordinated agency review and approval. However, each agency review is decoupled from the rest – allowing one slow agency to stall the entire process
- Because of the innate complexity in the system, school districts hire consultants to navigate this bureaucracy adding to the overall construction budget *(Little Hoover Commission, 2000).*
- California is one of 31 states that has Prevailing Wage Laws (PWL's) applied to all public school construction projects. These wages are well above those required for federal construction projects under the Davis-Bacon Act.
- Federal Davis-Bacon Act wages are approximately 22% above market. State PWL's for skilled trades run 51-67% above market wages. *(James Sherk, Heritage Foundation, Testimony before the Indiana State Senate, March 2015).* Patterson's PWL is tied to the Bay Area.
- Additional state environmental regulations above federal standards, design standards for seismic safety requirements tied to the Field Act, and California's interpretation of the Americans with Disabilities Act can add another 15-20% to the cost of new school construction in California *(The Complex and Multi-Faceted Nature of School Construction and Costs: Factors Affecting California. Research Findings, Center for Cities and Schools, University of California, Berkeley. June 2008).*

Impact of High Cost for School Construction

Essentially, California schools cost twice as much for half the facility

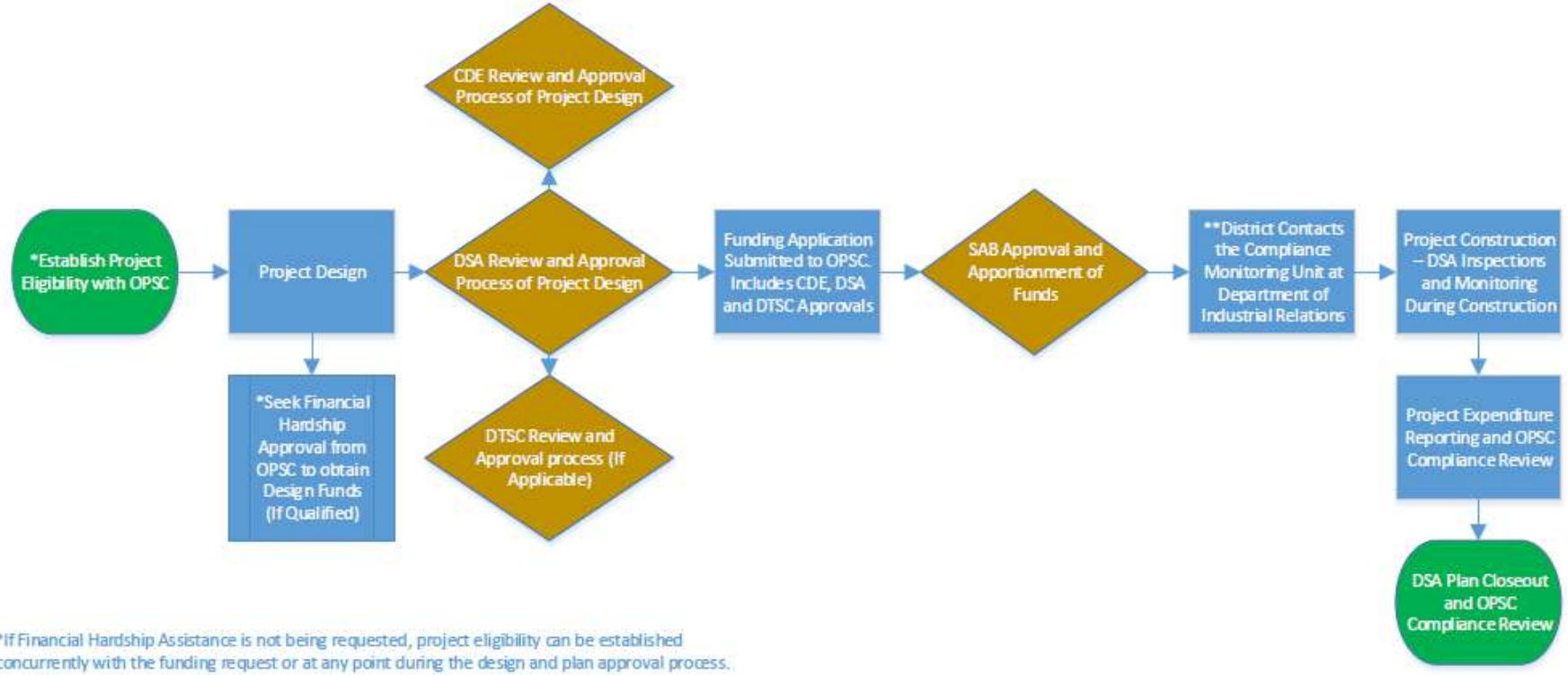


The Complex and Multi-Faceted Nature of School Construction and Costs: Factors Affecting California. Research Findings, Center for Cities and Schools, University of California, Berkeley (June 2008)

Process from Planning to Completion
Site Selection

- Proximity to Airports
- Proximity to High-Voltage Power Transmission Lines
- Presence of Toxic and Hazardous Substances
- Hazardous Air Emissions and Facilities Within a Quarter Mile
- Other Health Hazards
- Proximity to Railroads
- Proximity to Pressurized Gas, Gasoline, or Sewer Pipelines
- Proximity to High-Pressure Water Pipelines, Reservoirs, Water Storage Tanks
- Proximity to Propane Tanks
- Noise
- Proximity to Major Roadways
- Results of Geological Studies and Soils Analyses
- Traffic and School Bus Safety Conditions
- Safe Routes to School

Typical Approval and Funding Process for Schools Constructed or Modernized with State Funds



*If Financial Hardship Assistance is not being requested, project eligibility can be established concurrently with the funding request or at any point during the design and plan approval process.

**The Department of Industrial Relations (DIR) Compliance Monitoring Unit must be contacted after construction contracts are awarded. If construction contracts are awarded before or during the Approval and Funding Process, DIR would need to be contacted earlier.

OPSC – Office of Public School Construction
CDE – California Department of Education
DSA – The Division of the State Architect
DTSC – Department of Toxic Substances Control

Process from Planning to Completion

Planning

- CDE Reviews Potential Sites.
- DTSC assesses site for potential contamination.*

Design

- DSA and CDE provide optional design review services.

Plan Review

- DSA reviews plans and specs for compliance with CA Building Code.
- CDE reviews plans for compliance with Title V.

Process from Planning to Completion

Funding

- OPSC processes funding application.
- CDE, DSA, and DTSC approvals are complete
- SAB approves funding.

Construction

- DIR provides prevailing wage monitoring. ***
- DSA oversees construction.
- OPSC reviews annual substantial progress reports.

Close-out

- DSA issues certification letter.
- OPSC preforms compliance review

Examples of Cost Increases – Recent Construction Projects (Patterson)

- Creekside Arsenic Mitigation
  - Removed two feet of soil and back feel with non native soil
- Professional Development Center
  - Contradictory Inspection Findings after plan approval
- Apricot Valley
  - Additional cost to slope drainage away from site
- Walnut Grove
  - Required to mitigate site one foot above grade (100 year flood zone)
- Modernization Projects (encroachment permits)
  - City fees for driveway access

Funding for School Construction

- Developer Fees
  - Level I
  - Level II
  - Level III

  Mitigation agreement
- State Match
  - 50/50
  - Hardship
- District Bond (GO)
- Mello Roos
- COP

Present/Future Development

- Anticipated development(s)
  - Villages of Patterson
  - Ivy Terrace
  - Others
- Anticipated/projected growth
- What is our student generation factor
- District (student) housing needs

Funding for School Construction

- In addition to new school construction, the cost of rehabilitating older schools is also very expensive
- Many of California's schools were built during the "Baby Boom" from the 1950s-1970s and are in need of repair
- Patterson was fortunate to leverage $20,514,116 in state bond money to modernize Las Palmas, Northmead, Grayson, Del Puerto and Patterson High between 2011-2014

Anticipated Needs

- New residential development is slowly returning to Patterson. Anticipated needs based on current projected growth and new development*

*These are very rough estimates, based on what we know now:

1-3 years:	Additional portables/ new modular wing at Walnut Grove
4-6 years:	New elementary school
8-10 years:	Second elementary school/conversion of Walnut Grove to Middle School
15-20 years:	Construction of second high school

Project Delivery Systems

- Design-Build
- Design-Bid-Build
- CM Multi Prime
- Lease-Leaseback
- CM At Risk