



School Facilities Program

California Needs Additional Funding
and a More Equitable Approach for
Modernizing Its School Facilities

January 2022

REPORT 2021-115





CALIFORNIA STATE AUDITOR

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January 27, 2022
2021-115

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office conducted an audit of the Office of Public School Construction and three school districts. Our assessment focused on California's School Facilities Program (facilities program), and the following report details our conclusion that the State can improve the facilities program by increasing funding and making changes to improve equity in the way K-12 facility modernization is funded.

We determined that California will need \$7.4 billion in state funding to meet existing and anticipated modernization funding requests over the next five years. The State has historically funded modernization projects from general obligation bonds, which are a reasonable and common way to pay for infrastructure projects. We conclude that bond funding remains the best option to fund school facility modernization projects on an ongoing basis.

Further, we found that the State could increase equity in the facilities program by adjusting its approach to funding projects. With certain exceptions, the State Allocation Board reviews and approves funding for projects in the order it receives applications. However, the current first-come, first-served approach disadvantages school districts that are unable to advance their projects with their own local funds while waiting for state funding. Prioritizing the funding of projects from financially challenged districts would address this inequity in the facilities program.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael Tilden". The signature is written in a cursive, flowing style.

MICHAEL S. TILDEN, CPA
Acting California State Auditor

Selected Abbreviations Used in This Report

ARBBA	Applications Received Beyond Bond Authority
GO bonds	general obligation bonds
OPSC	Office of Public School Construction

CONTENTS

Summary	1
Introduction	3
The State Can Improve the School Facilities Program by Increasing Funding and Making Changes to Improve Equity	9
Recommendations	18
The State Should Continue Using Bond Funding to Assist Districts With Modernization Projects	21
Other Areas We Reviewed	27
Appendix	
Scope and Methodology	29
Response to the Audit	
California Government Operations Agency	33

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Summary

The Leroy F. Greene School Facilities Act of 1998 created the School Facilities Program (facilities program) to provide financial assistance to school districts for facility construction and modernization. To help ensure that all students have safe and adequate facilities in which to learn, the facilities program funds grants to school districts to, in part, modernize existing school facilities. The State Allocation Board (Allocation Board) administers the facilities program. The Allocation Board is responsible for approving school districts' applications for modernization funding and for determining the amount of state funds allotted to each project. The Office of Public School Construction (OPSC), under the Department of General Services, serves as staff to the Allocation Board. The OPSC's key responsibilities include facilitating the application funding process. This audit report concludes the following:

The State Can Improve the School Facilities Program by Increasing Funding and Making Changes to Improve Equity

Page 9

We estimate that California will need to provide an additional \$7.4 billion in state funding to meet the modernization requests that school districts have submitted or will likely submit in the near future. This amount includes existing requests of \$1.7 billion that the Allocation Board could not fulfill as of November 2021 because it did not have sufficient funding authority. In addition, we estimate that districts will request another \$5.7 billion over the next five years. As the State considers funding additional modernization projects, it should also adjust its approach and fund projects in a way that improves equity in the facilities program. With specific exceptions for projects that address health and safety threats to students, the Allocation Board reviews and approves funding for projects in the order it receives applications. This first-come, first-served approach means that districts sometimes wait several years to receive state funding. Financially challenged districts—which cannot fund their local share of project costs—are disadvantaged by this system.

The State Should Continue Using Bond Funding to Assist Districts With Modernization Projects

Page 21

The facilities program receives its funding from general obligation bonds. Bond funding is a common method of paying for infrastructure projects, but it has been unpredictable at times because the Legislature or voters did not pass bills or propositions needed to adequately fund the program. For example, between 2006 and 2016, no new bonds were authorized for sale to support school facility modernization, and the OPSC consequently developed a backlog of \$812 million in applications

that the Allocation Board could not fund. However, to meet school districts' ongoing needs bond funding is still preferable to direct funding through the annual state budget, which is subject to annual fluctuations in the economy. Further, the way the State distributes its bond funding generally promotes greater equity in school facility modernization efforts than local funding does: since 1998 the State has generally provided more funding to districts with lower assessed property values.

Summary of Recommendations

The Legislature should seek voter approval for at least \$7.4 billion in bond funding for the modernization of school facilities. Further, the Legislature should require the Allocation Board to administer funds from future bond propositions by prioritizing projects from districts that meet certain criteria, such as financially challenged districts.

Agency Comments

In its response, the Government Operations Agency did not indicate agreement or disagreement with our recommendations, but it did indicate that the OPSC would welcome the opportunity to further discuss what changes would and would not be beneficial to the facilities program.

Introduction

Background

California's public school system serves more than six million students in K-12th grade in approximately 10,500 schools across the State. Safe and adequate school facilities are critical to these students' learning and health. Studies have shown that building condition and the completion of school construction projects—including heating, air conditioning, and technology upgrades—affect academic achievement.¹ Researchers have also concluded that the physical environment plays a role in encouraging attendance, learning, and achievement, and that their findings support that maintaining school buildings in good condition is an essential part of providing a quality education for all students. Similarly, the U.S. Commission on Civil Rights has reported that school facilities that lack technology and technology support, critical facilities, and physical maintenance can negatively impact students' health and their ability to be attentive, and they can also exacerbate existing inequities in student outcomes.²

In addition, the U.S. Government Accountability Office recently reported that hazardous conditions of school buildings can pose health and safety risks to students, teachers, and staff. For instance, water damage caused by leaking from a roof or a heating, ventilation, and air conditioning system, can cause problems with indoor air quality and exposure to substances such as mold or asbestos. A report from the Harvard T. H. Chan School of Public Health also shows that exposure to contaminants inside school facilities can impact students' health, thinking, and performance. The text box lists some of the adverse educational and health effects associated with the poor condition of school facilities.

Certain groups of students may be disproportionately affected by poorly maintained school facilities. According to the U.S. Commission on Civil Rights, low-income students and students of color often attend schools that lack proper physical maintenance, and equitable access to technology, technology support, and other critical facilities.

Adverse Educational and Health Outcomes From School Facilities in Poor Condition

- Decreased cognitive functions such as decision making, attention, concentration, and memory.
- Increased absenteeism.
- Increased dropout rates.
- Increased incidents of asthma, allergies, and impacts on central nervous system functioning.

Source: Studies on health and educational outcomes related to the condition of school facilities.

¹ C. A. Neilson, S. D. Zimmerman, "The Effect of School Construction on Test Scores, School Enrollment, and Home Prices," *Journal of Public Economics*, Vol. 120, 2014, pp. 18–31; L. E. Maxwell, "School Building Condition, Social Climate, Student Attendance and Academic Achievement: A Mediation Model," *Journal of Environmental Psychology*, Vol. 46, 2016, pp. 206–216.

² The U.S. Commission on Civil Rights is an independent, bipartisan agency established by Congress in 1957. Its mission is to inform the development of national civil rights policy and enhance enforcement of federal civil rights laws.

These disparities can exacerbate existing inequities in student outcomes. In addition, the State has an obligation to ensure that all students attend schools that are safe and decent. In 2004 the State settled a class action lawsuit filed by students who attended schools with overcrowded and inadequate facilities, among other things. As part of implementing that settlement, the State enacted changes to its Education Code and appropriated funds to districts to improve the condition of school facilities.³

California's School Facilities Program

To help ensure that all students have adequately safe facilities in which to learn, the State provides funding to school districts for facility construction, modernization, and alteration. In 1998 the Leroy F. Greene School Facilities Act of 1998 (Greene Act) created the funding mechanism for the School Facilities Program (facilities program) and charged the State Allocation Board (Allocation Board) with administering the act to facilitate the construction, modernization, reconstruction, alteration of, or addition to school buildings. The Allocation Board administers the facilities program by carrying out the responsibilities that we describe in the next

section. The Greene Act specifies that the Allocation Board must require school districts participating in the facilities program and meeting certain other criteria to make all necessary repairs to ensure that school facilities are in good repair, working order, and condition. *Good repair* means that a facility is maintained in a manner that assures it is clean, safe, and functional.

For a school district to receive facilities program funding for modernization—the focus of this audit—its proposed project must meet certain requirements. Specifically, state law defines *modernization* as any modification of a permanent structure that is at least 25 years old or a portable classroom that is at least 20 years old that will enhance the structure's ability to achieve educational purposes. Broadly, a school district should use modernization funding to extend the useful life or enhance the physical environment of its existing facilities. The text box lists common types of modernization projects.

Common Modernization Projects

School districts often modernize their facilities by upgrading the following:

- Accessibility features
- Air conditioning
- Lighting and electrical systems
- Plumbing
- Roof
- Structure
- Technology

Alternately, a district can demolish an existing facility and replace it with a similar facility. This differs from the new construction program, which provides funding for additional classroom capacity.

Source: The OPSC's *School Facility Program Guide*.

³ This audit's scope did not include a review of the State's efforts to comply with this settlement agreement. Accordingly, we do not reach any conclusions about these efforts.

In addition to meeting requirements related to the age of a facility and the nature of a project, a school district must demonstrate it can contribute its share of the project costs to qualify for state funding. For modernization projects, school districts are responsible for providing at least 40 percent of the cost and the facilities program provides the remaining amount. In certain circumstances, school districts can qualify for additional state funding if they can demonstrate financial hardship.

The State funds the facilities program through *general obligation bonds* (GO bonds), which California voters must authorize the State to sell. GO bonds are essentially loans borrowed by state or local governments, such as school districts, and are primarily used to finance infrastructure projects, including projects at K-12 schools. At the state level, California voters decide whether to approve the sale of GO bonds by voting on statewide propositions. At the local level, voters within a district approve local bond propositions. Once voters approve a bond sale, the state or local government has *bond authority*, allowing it to sell bonds equal in value to the voter-approved amount. After it sells those bonds, the State or local governments can use that money for the specified purposes voters approved.

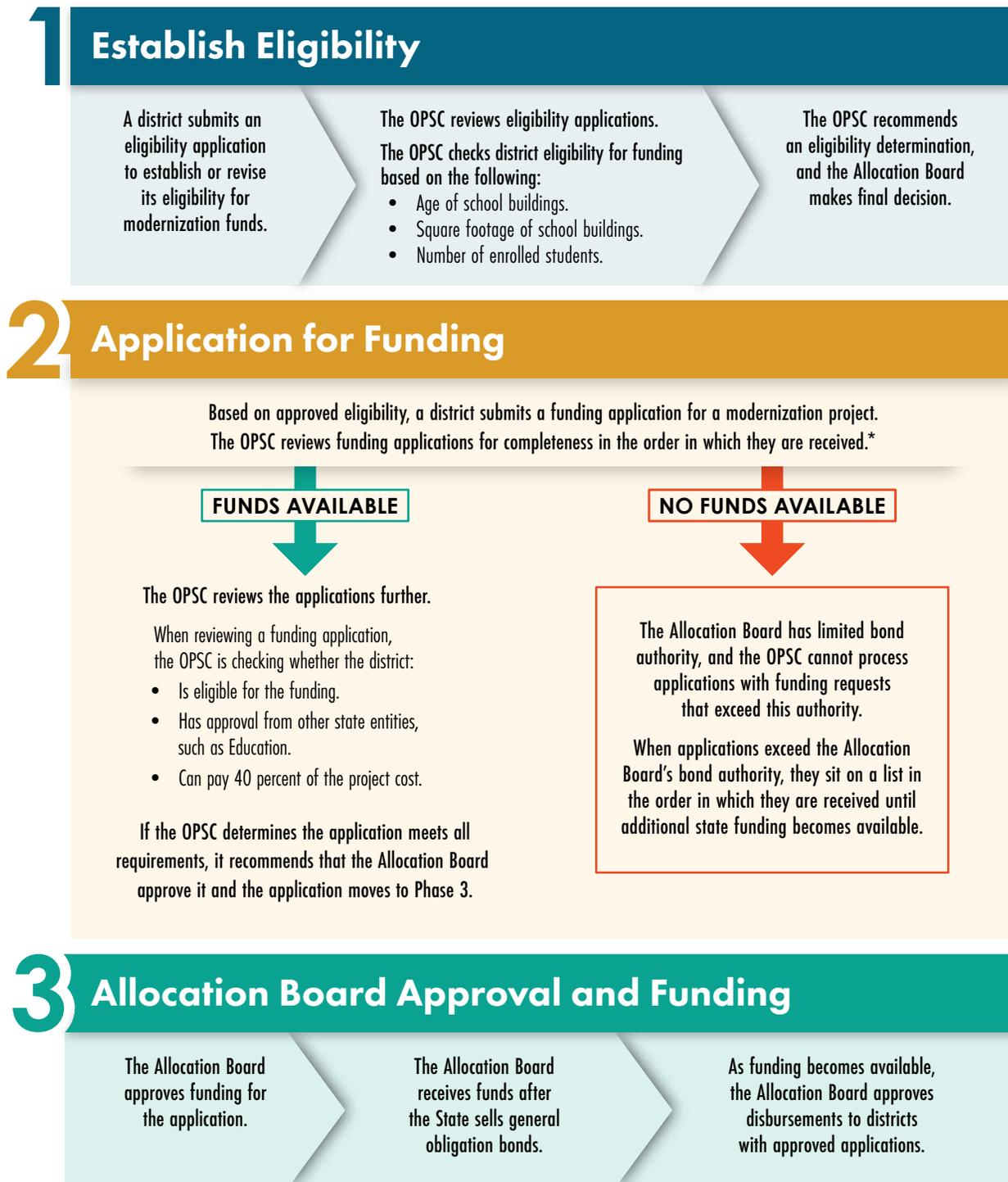
School districts generally fund their share of modernization project costs through local GO bonds. In addition, districts use other local sources, such as facility use permit fees, to fund their share. The Public Policy Institute of California reports that differences in local property taxes, local voters' willingness to approve bonds, and the ability of a district to successfully navigate the facilities program application process can all affect the amount of funding available to a school district and, ultimately, the condition of its facilities.

The Allocation Board and the Office of Public School Construction

With support from the Department of General Services (General Services), the Allocation Board is responsible for approving school districts' applications for modernization funding and determining the amount of funds the facilities program provides to each school district. The Allocation Board is supported by the Office of Public School Construction (OPSC) under the authority of General Services. The OPSC serves as staff to the Allocation Board. One of the OPSC's key responsibilities is facilitating the funding application process.

As Figure 1 illustrates, districts must go through a multistep process to obtain state funds for their modernization projects. First, districts must submit an application to the OPSC to establish their eligibility for funding. The OPSC reviews these eligibility applications and

Figure 1
The Facilities Program's Application Process for School Modernization Funding



Source: State law, the OPSC's policies and procedures, the OPSC's funding applications, and the Allocation Board's Applications Received Beyond Bond Authority list.

* Regulations prioritize funding for projects that address an imminent threat to the health and safety of students, and the OPSC reviews these projects first.

forwards them to the Allocation Board. Once the Allocation Board has deemed a district eligible, the district may receive funding for a specific modernization project. Districts can choose to submit their eligibility applications and applications for project funding at the same time or separately, but districts must always have qualified as eligible before receiving approval for project funding. In addition, the Allocation Board cannot fund a district unless the district's plans have been reviewed and approved by—among other agencies—the California Department of Education (Education).

Finally, if the Allocation Board approves an application for funding, the district must still request that it release the funding when it becomes available. The State typically sells GO bonds a few times a year when it has available bond authority, after which the facilities program has funding to provide to districts.

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The State Can Improve the School Facilities Program by Increasing Funding and Making Changes to Improve Equity

Key Points

- California will likely need \$7.4 billion to meet school districts' modernization funding requests over the next five years. This amount will address existing requests from school districts of \$1.7 billion that the Allocation Board cannot fund with its current remaining bond authority, as well as \$5.7 billion in additional requests that we estimate the State can expect to receive.
- The OPSC does not regularly prepare estimates of the need for modernization funding even though such estimates would allow the Legislature to better determine the amount in bond authority that it should ask voters to authorize.
- The Allocation Board and the OPSC's first-come, first-served approach to reviewing and approving modernization projects disadvantages those districts that cannot fund their local share of project costs. Districts that can complete projects on their own with local funding can receive reimbursement from the State after their projects are finished. Conversely, financially challenged districts can be left waiting for state funds, unnecessarily delaying improvements to their facilities.

California Will Need \$7.4 Billion in State Funding to Meet Anticipated Modernization Funding Requests Over the Next Five Years

We estimate that the State will need \$7.4 billion in modernization funding in the next five years. As Figure 2 depicts, our estimate has two parts. First, we accounted for the amount of funding that districts have already requested that the OPSC does not believe it can address with the Allocation Board's existing bond authority. The OPSC tracks these funding requests on the Applications Received Beyond Bond Authority (ARBBA) list. As of November 2021, the OPSC had placed modernization funding requests of about \$1.7 billion on the ARBBA list. In other words, after the Allocation Board obtains all of the proceeds from bonds that it currently is permitted to issue, it will still be about \$1.7 billion short of meeting the known demand for state funding. The OPSC began receiving requests it could not fund in March 2019—meaning that for almost three years, the OPSC has received requests that it has no authority to fund. To address just this known demand for modernization funding, the State needs \$1.7 billion in additional bond authority.

However, that additional authority would be insufficient to address the requests the State is likely to receive over the next five years, which we estimate will total an additional \$5.7 billion. We based this estimate on several factors, the most significant being the historic amount of funding school districts have requested. Specifically, we reviewed the total amount of modernization funds districts requested from 2013 through 2020

Figure 2

California's School Districts Will Likely Need \$7.4 Billion in State Funds to Meet Their Modernization Needs Over the Next Five Years

Modern school facilities in good repair are critical for student success.



But school districts have already submitted requests for **\$1.7 billion** more than California can currently provide...



...and we estimate that districts will request another **\$5.7 billion** over the next five years.



We estimate California needs to authorize a total of **\$7.4 billion** in school facilities bonds for all these requests.

and found that the amount requested generally increased each year.⁴ We then identified the total number and size of school sites for which districts requested modernization funds during these eight years, enrollment data for these school sites, and the total amount of funding requested. We analyzed enrollment data to calculate an average funding request for a small, medium, and large school. For each school site that did not request modernization funds during the most recent eight years, we made the assumption that these school sites could still request modernization funding. We then determined whether these school sites were small, medium, or large and assumed that their upcoming request would be equal to the average for their school size. Based on these data, we estimated the total amount of modernization requests the Allocation Board could receive over the next five years was \$5.7 billion.

The State does not centrally maintain information about the age of school buildings, which are critical data that would have improved our estimate of future need had they been available. These data would have allowed us a better understanding of how many school buildings are eligible for modernization. The OPSC's deputy executive officer indicated that the OPSC does not maintain a centralized record of school building ages.⁵ She stated that neither the OPSC nor the Allocation Board has the statutory authority to require building age information from districts that do not participate in the facilities program, and the OPSC has not needed these data when recommending funding decisions concerning individual applications to the Allocation Board.

.....

The State does not centrally maintain information about the age of school buildings, which are critical data that would have allowed a better understanding of how many schools are eligible for modernization.

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The OPSC's explanation for why it does not maintain a centralized record of school building age does not acknowledge the value of the information that it already receives from school districts. The OPSC can access information about school building age in two key ways.

⁴ The OPSC asserted that it does not track requested funds for health and safety modernization projects. Therefore, to estimate the requested funds, we reviewed the project amounts the Allocation Board approved over this time period.

⁵ In addition, we contacted Education and the General Services' Division of the State Architect, both of which have responsibilities related to the facilities program. They also indicated that they do not maintain these data.

First, as a part of the 2004 settlement that we describe in the Introduction, the State agreed to collect building age data from a subset of school districts. Consequently, the OPSC received data about approximately 38,000 school buildings, including the buildings' original construction date and the most recent modernization date, if applicable. Secondly, the OPSC receives building age information with each eligibility application for funding that it receives. If the OPSC centrally tracked and managed that information, such data would greatly benefit any effort to determine the State's modernization needs. However, the OPSC instead stores the information in disparate files related to each application.

Because the OPSC has not catalogued the information it receives in a useful manner, it has diminished its ability to assist the State in estimating the need for school modernization. We reviewed the data that the OPSC received as a result of the 2004 settlement agreement, but because the OPSC did not maintain these data by keeping them up to date, they were not useable for our projection of modernization need. However, these data would be valuable if the OPSC had maintained them. For example, they show that almost 2,300 of the 38,000 school buildings in question were constructed from 2001 through 2005. These buildings are among a wave of school buildings that will soon meet the age criteria in state law for receiving modernization funding from the facilities program. Such information—partnered with historic data on the average cost of modernization projects—could assist the OPSC in predicting how much funding school districts might request in the coming years.

Because the OPSC has not cataloged the information it receives from school districts about building age in a useful manner, it has diminished its ability to assist the State in estimating the need for school modernization.

Although data on the age of school buildings might have improved the robustness of our estimates, we obtained and analyzed the best data currently available to estimate future needs for state modernization funds. Accordingly, we believe our estimate is a reasonable projection of future requests. However, as we describe in the next section, regular estimates of the need for modernization funding that are in part based on building age data would benefit the State as it plans for these needs.

The State Would Benefit From Regular Estimates of Modernization Funding Need

The OPSC does not prepare estimates of the need for modernization funding even though this information would benefit the Legislature and voters. Historically, the State has funded the facilities program with voter-approved GO bonds. Estimates from the OPSC at least once every other year to anticipate the funding needed could be useful as the Legislature considers how much in bond authority it should ask voters to authorize through future bond propositions. Estimates would also give the Legislature greater assurance that it is not asking for too much funding from voters, some of whom may be concerned about increasing the State's debt.

Because school districts are only eligible to receive funding to modernize school buildings that have reached certain ages and the OPSC does not know the number of buildings that have reached those age thresholds, the OPSC's deputy executive officer believes that it does not have sufficient data to estimate future need for modernization funding. As we previously describe, the OPSC has information about the age of a school building only if a school district provided that information as part of an eligibility application or as part of the 2004 settlement agreement. However, as we demonstrate in the previous section, one can use reasonable assumptions about future funding requests to reach an estimate of modernization needs. Because the OPSC is responsible for administering the facilities program, it is best suited to continue refining these estimates we have developed and providing that valuable information to the Allocation Board and policymakers.

.....

We believe that factoring in the age of school buildings would critically enhance the OPSC's ability to estimate the need for state funding.

.....

That said, we believe that factoring in the age of school buildings would critically enhance the OPSC's ability to estimate the need for state funding. Although the OPSC indicated that it cannot fully estimate future requests without complete data about the age of California's school buildings, another option would also allow for dependable estimates. Specifically, the OPSC could use valid and reliable data—such as the data it already possesses, perhaps combined with data it could obtain through a survey of a statistically significant number of school districts every other year—to project the age of school buildings statewide. Using these data, the OPSC could

slowly build a database of the age of school facilities, further assisting it in determining when school districts will likely seek modernization funding and the expected amount of funding. The OPSC could present these estimates every other year to the Allocation Board, which could then report this information to the Legislature when its bond authority begins to run low.

As described above, the OPSC believes that neither it nor the Allocation Board can require districts to provide the age of their facilities, particularly if they have historically not participated in the modernization facilities program. However, only a relatively small number of districts—about 290 out of approximately 1,150 districts statewide—have never participated in the program. According to the OPSC’s deputy executive officer, the OPSC has not requested school facility ages from districts that have not participated in the modernization program. However, the OPSC will not know the extent to which districts are unresponsive until it actually requests this information. Additionally, in its initial effort to develop a needs estimate, the OPSC could intentionally focus its data collection on larger districts with more school sites and then supplement those data with data from a sample of smaller districts. Obtaining these data would increase the sufficiency and robustness of the OPSC’s projections and would help the Legislature more clearly identify future need for state funding to modernize these facilities.

The Legislature Should Change the Allocation Board’s Application Process to Improve Equity in Modernization Funding

The system the Allocation Board and the OPSC currently use for processing modernization applications likely limits the ability of less wealthy districts to modernize their school facilities. With the exception of modernization projects that address an imminent threat to the health and safety of students (health and safety projects), the Allocation Board approves funding for projects in order of their receipt.

Because of this practice, the OPSC reviews and processes applications for the non-health and safety projects on a first-come, first-served basis, and districts can wait several years after submitting their applications to receive approval from the Allocation Board and subsequently to receive their funds. From fiscal years 2018–19 through 2020–21, districts generally waited an average of three years from application to funding approval because the OPSC had a backlog of applications from the previous ARBBA list to process first. Because the State sells GO bonds a few times a year and districts can receive funding from these sales only when the Allocation Board has available bond authority, it can take districts several additional months after the Allocation Board’s approval to receive their funds.

The OPSC deputy executive officer estimated that without the ARBBA list, districts generally waited about four months to receive Allocation Board approval. Waiting periods can stretch even longer than we describe above during times when the Allocation Board does not have bond authority. In these periods, districts must wait for voters to approve additional state funding. For example, some districts have been waiting on the current ARBBA list since March 2019, or almost three years, and will not be able to receive funds until the Allocation Board has additional bond authority.

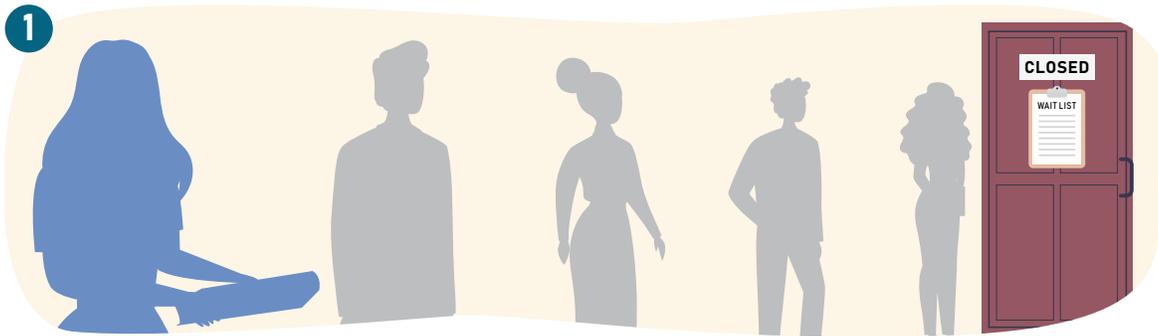
Waiting periods for modernization funding can stretch for several years during times when the Allocation Board does not have bond authority.

Because school districts across the State vary in their ability to independently finance school projects, the first-come, first-served funding model disadvantages some districts. The more dependent a district is on state funding to start or complete its project, the less likely it is to be able to move forward with its project until it receives the state funding. As we note above, these wait times can last for years. Conversely, districts that can progress without state funding are less affected by the wait times associated with the first-come, first-served model. For example, we identified three districts that funded and completed their modernization projects before they submitted applications for state funding for these projects. One of these districts stated it completed its project to modernize an administration building six years before applying.

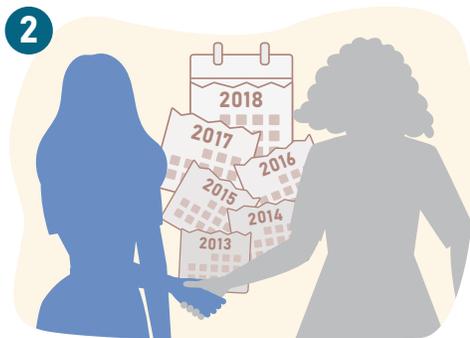
The effect on financially challenged districts becomes exacerbated when the State has no funding to allocate to modernization projects. As Figure 3 shows, we identified a district that submitted an application for project design funds in October 2013, demonstrating that it met financial hardship criteria that allowed it to receive state funding for this purpose.⁶ As the figure illustrates, because the Allocation Board does not prioritize applications from districts with financial hardships, that project has experienced long delays for funding. The project, which is for facility upgrades that include improvements to classrooms and changes to a multipurpose facility,

⁶ Certain districts that can demonstrate a financial hardship may apply for design funding to help pay for some of the upfront costs of a school modernization project, such as an architect's fees to complete the project's plans.

Figure 3
An Example of How First-Come, First-Served Disadvantages Some Districts



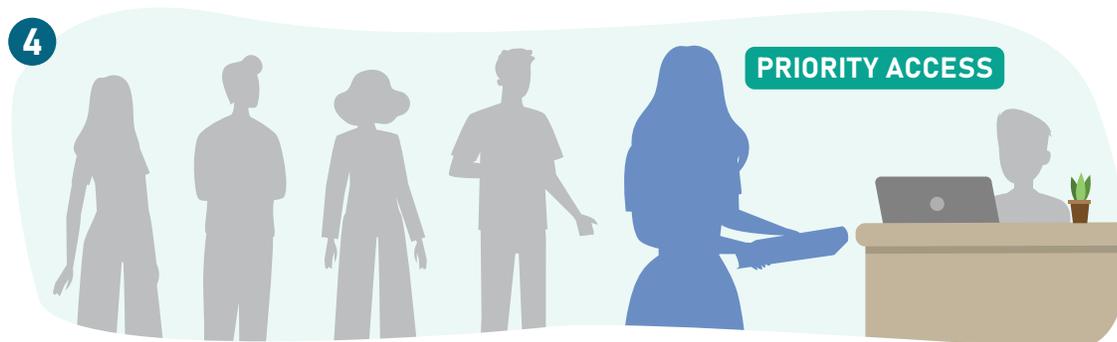
In October 2013, a **financially disadvantaged district** submitted an application for project design funding, but the facilities program ran out of money before the district submitted this application, and the OPSC placed the application on the ARBBA list.



The district eventually received the design funds in 2018, **five years after** applying for help.



When the district applied for full project funding in November 2019, it was once again left waiting in line because the facilities program ran out of funding again.



This district was disadvantaged by the Allocation Board's first-come, first-served approach to facilities program funding.
Giving priority status to financially disadvantaged districts would help avoid the long delays that these districts can experience.

now waits on the ARBBA list for voters to approve more funding and for approximately 260 other projects to be funded first because those districts submitted their applications earlier. As a result, students in this district do not currently have the same access to modern facilities as students may have in wealthier school districts that could start and complete their projects using local funds while awaiting reimbursement from the State.

The OPSC has recognized that periods during which the State runs out of bond authority for modernization projects can create inequity between districts. In a June 2018 report to the Allocation Board, the OPSC stated that the ARBBA list creates a system where districts that have limited resources compete for a place in line by spending funds that may end up being wasted if new funding for their modernization project does not materialize. According to the OPSC, districts incur costs in preparing and submitting funding applications, and not all districts are in a financial position to submit applications with all the necessary project plan approvals by other state agencies if they are not certain they will receive funding. The OPSC also indicated that some districts may wait until they learn whether a new bond proposition is making changes to the modernization program, such as changing the state share of funding provided to districts, before submitting their applications. However, districts that choose to wait to submit applications will be the last to receive their project funds because the OPSC reviews applications in the order in which they are received.

.....

Districts incur costs in preparing and submitting funding applications, and not all districts are in a financial position to submit applications with all the necessary project plan approvals if they are not certain they will receive funding.

.....

The Legislature could resolve these issues by making changes to the structure of the facilities program. For example, it could amend state law to require the Allocation Board and the OPSC to address public school funding applications in a manner similar to those from charter schools. Specifically, state law requires the Allocation Board to give preference to funding charter schools that meet certain criteria, such as being from overcrowded districts or from districts in low-income areas. Further, state regulations establish that applicants for charter school funding can apply only

during a specified period after the approval of additional funding. Those regulations also allow the Allocation Board to establish additional application periods, which its program handbook indicates will occur only when bond authority is available to fund projects. In other words, there is no ARBBA list for charter school projects since the Allocation Board does not accept applications unless it has available bond authority. Additionally, state law allows the Allocation Board to provide charter school projects with a preliminary apportionment, or a reservation of bond authority, so that the charter school knows funds are set aside for a project before it or its district spends money on the full cost of compiling a funding application.

Including some of these features in the modernization program would give financially challenged districts a greater incentive to apply and would likely reduce the potential for inequity between wealthy and less wealthy districts. In 2020 Proposition 13—the Public Preschool, K-12, and College Health and Safety Bond Act of 2020—would have, among other things, made several statutory changes to the modernization program, such as prioritizing applications from financially challenged districts. However, voters rejected Proposition 13. As a result, there have been no changes to the administration of funds made by a proposition since 2006.

Recommendations

Legislature

To meet school districts' anticipated requests for modernization funds, the Legislature should seek voter approval of at least \$7.4 billion in bond authority for the modernization of school facilities.

To better ensure that the Allocation Board provides equitable funding for all districts that apply for modernization funds, the Legislature should require that the funds in future bond propositions be administered in the following manner:

- Require the Allocation Board to prioritize funding to projects that fit at least one of the following criteria:
 - Projects from districts meeting the financial hardship criteria.
 - Projects from districts in low-income areas.
 - Projects that address an imminent threat to the health and safety of students.

- Allow the Allocation Board to make preliminary apportionments to all districts requesting modernization funding that meet the financial hardship criteria.

To ensure that it receives information about future demands for modernization funding, the Legislature should require the Allocation Board to create estimates of future modernization funding requests and provide this information to the Legislature at least every other year beginning in fiscal year 2022–23.

To ensure the quality of estimates of future requests for modernization funding, the Legislature should require that the OPSC gather valid and reliable data about the age of all school facilities in California and that the Allocation Board's estimates be based on this data. For example, the OPSC could survey a statistically significant number of school districts to gather data on the age of their school buildings. Further, the Legislature should require the Allocation Board to maintain any data the OPSC collects from districts for the purpose of building a comprehensive set of data on facility age for all California schools.

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The State Should Continue Using Bond Funding to Assist Districts With Modernization Projects

Key Points

- Bond funding does not provide a continually guaranteed source of funding, but it is a reasonable and common way to pay for infrastructure projects and remains the best option for California to fund school facility modernization on an ongoing basis.
- When state funding is unavailable or slow to reach school districts, they must rely on local funding to advance their projects. However, local funding is not always available or sufficient to cover districts' modernization needs.
- State funding has generally encouraged greater equity in school facility modernization, with more state funding going to districts with lower assessed property value on average. Still, disparities exist between wealthy and financially challenged districts because of the amount of local funding that wealthy districts can access.

Bond Financing Remains the State's Best Option for Funding School Facilities Projects

The State's source of modernization funding is GO bonds. As we describe in the Introduction, government entities issue GO bonds to fund certain activities, such as the construction and modernization of school facilities. Bond funding is a reasonable and common way to pay for infrastructure projects. We identified the five other states with public school systems that have the largest total revenue and expenditures after California and determined how they finance school maintenance and modernization projects. Each of the states has a different formula for calculating their state and local share of funding, but overall they have similar methods of funding school facility maintenance and modernization projects using a combination of local and state funding. Several of these states provide state funding in part through the sale of bonds.

Although bond financing is a reasonable way to pay for school facility construction, it is not a continually guaranteed source of funding. For the State to create debt—such as GO bonds—above a certain dollar amount, the state constitution generally requires that voters approve of the debt through an election. Accordingly, two critical steps typically precede any school bond funding becoming available through the facilities program: the Legislature enacts a bill authorizing the bond measure's placement on the ballot and a majority of voters approves that bond measure.

In the early years of the facilities program, the Legislature and the voters of California regularly provided the Allocation Board with bond authority to fund school facilities projects. From 1998 through 2006, voters approved school facilities bond propositions every two to four years. The funds approved were sometimes split between projects that the State had not been able to fund using previous bond authority and the expected future need for modernization funding. For example, in 2002 Proposition 47 made a total of \$3.3 billion in bond authority available for modernization projects, but the biggest portion of that authority—\$1.9 billion—was dedicated to projects from districts

that had already requested funds. However, from 2006 until 2016, the Legislature did not submit a school facilities bond measure to the State's voters nor did voters qualify a bond proposition for the ballot. During that 10-year period, the Allocation Board again received applications for modernization that exceeded its available bond authority.

In November 2016, voters approved a proposition that allowed the State to sell additional GO bonds, including \$3 billion in bonds for modernization. That new bond authority allowed the OPSC to address its backlog—which, by the time OPSC began processing applications again, had reached \$812 million in requested funding—and provided the Allocation Board an additional \$2.2 billion in authority to fund new applications. However, this additional \$2.2 billion was not sufficient to fund new applications for a significant amount of time. By March 2019, the OPSC was again receiving applications beyond the Allocation Board's bond authority, leaving the Allocation Board unable to fulfill those requests. In 2020 California voters rejected a state bond proposition that would have provided the Allocation Board \$5.2 billion in new bond authority for modernization projects. By November 2021, the Allocation Board had received 650 applications from school districts requesting a total of about \$1.7 billion—funding that the Allocation Board does not have bond authority to cover. These requests will remain unfulfilled unless the Allocation Board receives additional bond authority or other state funds.

At least 650 applications from school districts requesting a total of about \$1.7 billion as of November 2021 will remain unfulfilled unless the Allocation Board receives additional bond authority or other state funds.

In light of the uncertainty of bond funding, we considered whether a different approach to state funding for school facilities on an ongoing basis would be more beneficial. The Legislature provided \$250 million in general funds for school facility projects in the fiscal year 2021–22 budget for both modernization and new construction. According to the OPSC, this was the first time in the history of the facilities program that the Legislature made a direct appropriation, and it came during a time of significant budget surplus. We considered whether continuing to fund construction projects through annual general fund appropriations would be a better option than bond funding.

One weakness in such an approach is that it would subject the amount of funding available for school facility construction and modernization to an annual fluctuation. Bond funding, on the other hand, has historically provided a source of funds over a period of several years. Generally speaking, the discretionary spending in the State's budget is tied to economic cycles. That means that, under a general fund appropriation model of school facilities financing, the amount of available funding for school facilities projects in the State's budget would be subject to annual uncertainty. In contrast, the availability of bond funding is more predictable because the OPSC can project when it will exhaust its available bond authority. Therefore, between bond funding and direct funding through the annual budget, we find bond funding to be a more advisable approach to financing school facilities projects on an ongoing basis.

.....

We find bond funding to be a more advisable approach than annual general fund appropriations for financing school facilities projects.

.....

California can adopt other changes to its facilities program that will better ensure the program's stability. As we indicate in the previous section, the Allocation Board could prepare projections of school modernization funding needs and regularly provide this information to the Legislature to ensure that policymakers are fully informed when the State is in danger of running out of available bond funding. Further, the disruptions that occur when the State runs out of bond funding disproportionately affect districts that are not able to fund projects on their own and therefore must wait for state funding. The recommendations we make in this report about prioritizing projects from certain districts will help ensure that lapses in bond funding do not stop projects from progressing at the local level. For the districts that depend the most on state funding, these changes to prioritization will increase their certainty of receiving any future state funding.

Local Funding Cannot Always Fulfill Districts' Modernization Needs

As we describe previously, the facilities program is unable to fulfill all funding requests from school districts that want state assistance for modernizing their facilities. In the absence of state funding, school districts that want to proceed with modernization projects need to do so with their own sources of funding. The school districts we reviewed primarily fund these projects through local bond measures that district

voters must approve. State law authorizes the governing board of each school district to raise funds by selling GO bonds, which are often repaid through local property taxes. A school district may issue bonds up to specified total debt limits that are based on the assessed value of the taxable property within the district.⁷ However, local bond funding is not always sufficient to cover modernization needs. Table 1 shows modernization needs versus available funding at the three school districts we reviewed.

Table 1
Three Districts Do Not Have Sufficient Local Funding to Address Their Modernization Needs

DISTRICT	ALL REPORTED MODERNIZATION NEEDS (\$ MILLIONS)	AS-OF DATE	LOCAL BOND AUTHORITY REMAINING FOR MODERNIZATION (\$ MILLIONS)	ANTICIPATED STATE FUNDS* (\$ MILLIONS)	ADDITIONAL FUNDING NEEDED TO COMPLETE REMAINING MODERNIZATION PROJECTS (\$ MILLIONS)
<i>Cupertino Union School District</i>	\$121	2020	\$0	\$15	\$106
<i>Palm Springs Unified School District</i>	497	2019	98	2	397
<i>San Juan Unified School District</i>	1,729	2014	480	16	†

Source: Financial reports from Cupertino, Palm Springs, and San Juan school districts, and the OPSC's ARBBA list.

* Applications to which the Allocation Board has provided unfunded approval, applications that the OPSC is currently processing, and applications that are on the ARBBA list.

† Because San Juan Unified School District could not provide a more up-to-date estimate of its modernization needs, we were unable to determine the additional funding it needs.

Other sources of local funding are also unlikely to meet districts' modernization needs. Staff at the three districts we reviewed stated that their districts use other local funding sources when possible. Among those other sources are developer fees, parcel taxes, and lease revenues. However, none of these sources are as substantial as local bond measures, which made up at least 95 percent of local school facilities funding at the three districts.

Because the State cannot currently fund its share of all of the existing modernization requests, present circumstances favor any district that can fund its own projects without state assistance. As we explain above, a district's debt limit is tied to its assessed property values. Accordingly, districts with higher assessed property values are inherently capable of raising more bond funding than those with lower property values.

⁷ The debt limit for elementary and secondary school districts is 1.25 percent of the taxable property within the district. For unified school districts, the cap is 2.5 percent.

Therefore, when the State cannot fund all modernization projects, there is a structural inequity in whether districts are positioned to proceed with facilities projects. We discuss more fully the relationship between the value of assessed property and access to project funding in the next section.

The State Can Do More to Promote Equity in School Facilities Funding

As we discuss earlier, school districts finance their modernization projects through a combination of state and local funds. Generally speaking, the more accessible funding for modernization projects is to a district, the more likely that district will be able to complete modernization projects and ensure that its students attend modernized facilities. As we discuss in the Introduction, modernized facilities are linked to positive student health and educational outcomes. To determine whether state funding for school facilities modernization is promoting equity, we examined the distribution of funds available for modernization projects at a selection of school districts. Although our analysis included only a selection of all districts within 15 counties, the districts we selected collectively encompass more than 70 percent of enrolled students in California.

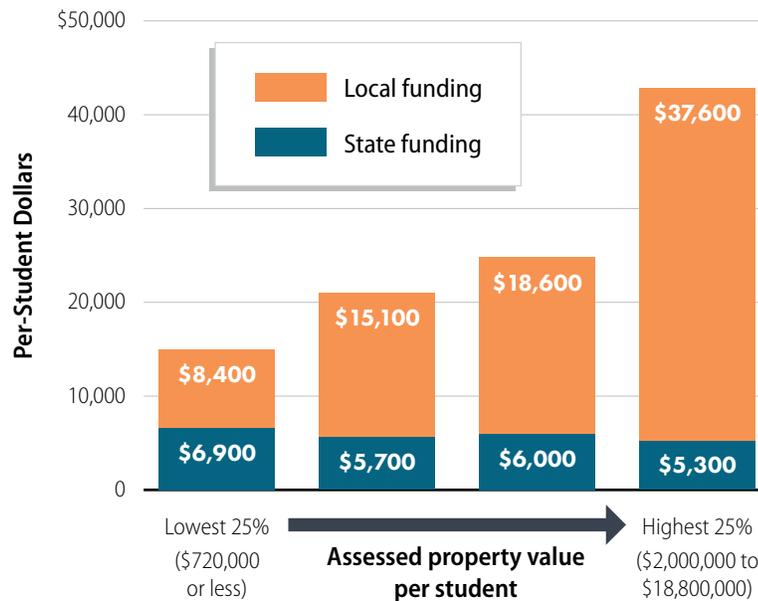
To review this issue, we relied on several key data points. Generally, a district is better positioned to access bond funding if the properties within its boundaries are of higher value because those properties are a taxable asset. Also, higher property values tend to correlate with higher wealth. Therefore, the total assessed property value within a district was an important metric in our analysis. We also reviewed the amount of facilities program funding the Allocation Board approved for each district since 1998 and its amount of local bond authority from 1998 through 2020 as reported by the State Treasurer's Office. We then looked at each of these measures on a per-student basis.

The largest disparities occurred in the modernization funding available from local sources. Figure 4 shows the distribution of funding across quartiles of assessed property value. As the figure shows, districts with the highest per-pupil value of assessed property had access to the largest amount of total funding, generally because of the large share of local funds those districts could access. To the extent that funding is a primary way for a district to improve its facility conditions, our findings mean that districts from these wealthier areas are better positioned to improve their facilities and—by extension—their student outcomes.

As Figure 4 indicates, state funding does not create the funding distribution imbalance. Rather, state funding has been weighted towards less wealthy areas of the State. Specifically, state funding was more evenly spread among the districts in the upper three quartiles and was more concentrated among districts with the lowest assessed

property value per pupil. The State has an established process to provide additional state funds to districts that are unable to contribute their portion of modernization costs, which likely include districts in lower-wealth areas. Specifically, the facilities program can provide up to 100 percent of the district's local match for modernization funds if the district meets the financial hardship criteria. Thus, state funds have generally given districts in less wealthy areas a greater ability to maintain modern facilities than they would have had otherwise.

Figure 4
School Districts in Areas With Higher Assessed Property Values Have Access to More Local Funding



Source: Analysis of local bond measures and state funding from the facilities program for both new construction and modernization, and assessed property values from a selection of districts representing more than 70 percent of enrolled students in California.

However, the State can do more to improve equity in school facilities modernization by adopting the recommendations from page 18 of this report about prioritization of funding. Attempting to improve equity by redirecting state funds away from districts that can access greater amounts of local funding is likely to have a limited effect. As Figure 4 shows, on average, the State cannot close the funding gap by merely shifting funds from the districts with higher assessed property values to those with lower assessed property values. However, by making sure that districts with less access to local funding sources are provided state funds first, the State can more quickly provide modernized facilities to the students in these financially challenged districts.

Other Areas We Reviewed

As part of the audit work required by the Joint Legislative Audit Committee's (Audit Committee) request, we reviewed the areas described in Table 2. Table 2 also includes the results of our review.

Table 2
Other Areas We Reviewed as Part of This Audit

Modernization Application Review
<p>We evaluated six applications for modernization funding and determined that, when reviewing and approving these applications, the OPSC and the Allocation Board complied with key requirements in state law, Allocation Board regulations, and the OPSC's policies. As we highlight in Figure 1, the OPSC and the Allocation Board consider several factors when reviewing and approving modernization applications. We specifically assessed whether the OPSC verified that a district was eligible to receive modernization funds, whether the OPSC verified that the district received project approvals from relevant state agencies, and whether the OPSC performed a detailed review of the district's cost estimate for health and safety projects.</p> <p>Among the six applications we reviewed were two applications from districts that requested additional state funding because of financial hardship. As we describe earlier, districts may qualify for additional funding if they cannot provide 40 percent of the funding for a modernization project. We reviewed whether the OPSC verified that these districts met the requirements for a financial hardship and concluded that it appropriately verified that these districts met those requirements.</p>
Condition of School Facilities at Three Districts
<p>The Audit Committee asked us to review a selection of school districts with diverse facility needs and evaluate their efforts to provide safe and adequate public school facilities to students and teachers. Based on geographic, socio-economic, and student enrollment factors, we selected three districts to review: Cupertino Union School District, Palm Springs Unified School District, and San Juan Unified School District.</p> <p>State law requires school districts to assess the safety, cleanliness, and adequacy of their facilities, including any maintenance needed to ensure that they are in good repair as defined in state law. The OPSC developed a Facility Inspection Tool (FIT) to assist school districts in determining if their facilities are in good repair and to rate them accordingly. The tool is designed to identify areas of a school site that are in need of repair based on a visual inspection. State law also requires school districts to annually report information about each of their schools through individual School Accountability Report Cards (SARCs). State law requires SARCs to provide data that parents can use to make meaningful comparisons between schools, including information regarding school facility safety, cleanliness, and adequacy.</p> <p>We reviewed 10 SARCs at each of the three districts and found that the districts reported their school facilities as being in at least fair condition with most being in good or better condition. We also reviewed the underlying FIT reports that the districts used to generate the facilities portion of the SARCs. The districts we reviewed varied in the level of detail they included on their FITs and subsequently reported on their SARCs. However, within each district, the level of detail was internally consistent; therefore, we did not have significant concerns about districts' assessing some of their schools differently from others.</p> <p style="text-align: right;"><i>continued on next page...</i></p>

We also reviewed how each of the districts mitigated their schools' deficiencies by reviewing their processes for submitting, tracking, and completing work orders. Each of the three districts has a centralized maintenance department that handles maintenance and repair requests for its schools. We found the districts generally appropriately addressed their work orders; specifically, we did not identify significant concerns regarding the ways in which they generated work orders, or the timeliness with which they performed the work.

We identified some minor exceptions at San Juan Unified School District involving deficiencies listed on its FITs for which we found no corresponding work orders. These deficiencies included a walk-in refrigerator with mold inside it and an outside work yard that had a lot of broken items and trash. We discussed these items with the district, which explained why it had not created the work orders in question. For example, in the two cases above, district staff indicated work orders were unnecessary because the deficiencies were rectified by maintenance and cleaning staff at the time. In another case, the district created a priority work order to fix peeling linoleum flooring in a staff bathroom in response to our query regarding the missing work order.

We conducted this performance audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code sections 8543 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



MICHAEL S. TILDEN, CPA
Acting California State Auditor

Date: January 27, 2022

Appendix

SCOPE AND METHODOLOGY

The Audit Committee directed the California State Auditor’s Office to conduct an audit of the facilities program to determine whether there is a need for additional modernization funding, assess options for stable revenue sources, and determine whether equity gaps exist in funding. Because the Audit Committee narrowed the scope of this audit to focus on the modernization of existing school facilities, we do not present detailed information about the ways in which school districts apply for funding to acquire school sites or construct new school facilities. The table below lists the objectives that the Audit Committee approved and the methods we used to address them.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed relevant laws, rules, regulations, policies, and procedures related to the facilities program and to school districts’ maintenance of their facilities.</p>
<p>2 Review the OPSC’s administration of facilities program funding and assess the process for administering such funding:</p> <p>a. Determine the factors the Allocation Board considers for approving district applications for school facilities funding, including for financial hardship.</p> <p>b. For a selection of school district applications for funding, evaluate the Allocation Board’s process for reviewing and approving applications from eligible school districts.</p>	<ul style="list-style-type: none"> • Reviewed the OPSC’s modernization eligibility and funding application requirements, including requirements for health and safety projects and for financial assistance. Interviewed OPSC staff regarding their processes for reviewing applications. • Tested six modernization applications that the Allocation Board approved in fiscal years 2018–19 through 2020–21, including two requesting financial assistance and two requesting facility hardship grants, for compliance with state law and OPSC policies. • Calculated the number of applications currently on the OPSC’s ARBBA list and the total amount of funding requested by districts. Determined the average amount of time that applications remained on the list. • For applications the Allocation Board approved in fiscal years 2018–19 through 2020–21, determined the average time it took for applications to receive funding approval.
<p>3 Evaluate the methods by which the State and local governments finance the modernization and maintenance of school facilities and compare available financing and funding to the known and estimated need for modernization and maintenance.</p>	<ul style="list-style-type: none"> • Identified all state school facilities bond measures approved by voters since 1998. • For three school districts, identified all local bond measures approved by voters since 1998. • Interviewed district staff regarding local funding sources for facility modernization and maintenance projects and reviewed each district’s facilities records regarding its estimated maintenance and modernization needs.
<p>4 For a selection of school districts, review the per-pupil value of assessed property to determine the relationship between surrounding property values and the availability of school facility funding. To the extent possible, assess the extent of equity gaps in the financing of school modernization and maintenance.</p>	<ul style="list-style-type: none"> • For each school district in 15 counties, reviewed the per-pupil value of assessed property and median income within the district’s boundaries. To calculate assessed property values, we summed the land value and structure value or improvement value, depending on how it was classified by each county. • For each of the same districts, identified the per-pupil amount of local construction and modernization funding and facility program funding it received. • Compared the per-pupil amount of assessed property in each district to the amounts of facilities funding available for each district from local and state sources to determine equity between districts.

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AUDIT OBJECTIVE	METHOD
<p>5 For a selection of school districts that have diverse facility needs, evaluate the districts' efforts to provide safe and adequate public school facilities to students and teachers:</p> <p>a. Review school SARCs to assess whether the districts have met minimum school facility standard benchmarks and reported whether their facilities are in good repair. For facilities with reported deficiencies, determine whether the districts took appropriate steps to mitigate those deficiencies.</p> <p>b. Assess facility needs and identify outcomes related to school facility deferred maintenance.</p> <p>c. Evaluate the methods by which the districts financed the modernization and maintenance of school facilities, and compare available financing and funding to the known and estimated need for modernization and maintenance.</p>	<p>For 10 schools within each of three local school districts:</p> <ul style="list-style-type: none"> • Reviewed the SARCs and their underlying FITs to assess whether the district has met minimum school facility standard benchmarks. • Determined whether the district's facilities were in good repair as reported on the SARCs. • For facilities with reported deficiencies, interviewed staff regarding processes and reviewed work orders to determine whether the district took appropriate steps to mitigate those deficiencies. • Assessed facility needs by reviewing the district's facilities master plans. • Interviewed staff to identify outcomes related to school facility deferred maintenance. The districts generally reported that putting off maintenance can ultimately increase repair or replacement costs; in addition, facilities will deteriorate and may affect the safety of students and staff if maintenance is deferred. • Interviewed staff to identify available funding and the manner in which the district financed the most recent maintenance project in each school. The districts asserted they generally use whatever funds are available, such as bond funds or redevelopment funds.
<p>6 Estimate the future need for modernization of school facilities and present viable options for stable revenue sources for modernization. To the extent that current or anticipated future funding and financing shortcomings exist, review options of addressing those shortcomings and propose solutions.</p>	<ul style="list-style-type: none"> • Interviewed the OPSC and school district personnel and reviewed relevant funding criteria to identify existing revenue sources for modernization. • Reviewed district modernization applications and requests for state funding submitted to the OPSC in the last eight years. Estimated the number of applications and amount of funding requests the OPSC will receive over the next five years and compared it to remaining funding. • Identified alternative solutions to anticipated shortcomings by interviewing the OPSC staff regarding districts' financing options. • Reviewed academic studies and other publicly available information for five states to understand how they finance school facility maintenance and modernization projects, and identified best practices.
<p>7 To the extent possible, assess the effect of deferred modernization on statewide student health and educational outcomes.</p>	<p>Researched studies and reports published within the last seven years that relate to the effects of deferred modernization on student health and education outcomes and that included California schools.</p>
<p>8 Review and assess any other issues that are significant to the audit.</p>	<p>Did not identify any other issues significant to the audit.</p>

Source: Audit workpapers.

Assessment of Data Reliability

The U.S. Government Accountability Office, whose standards we are statutorily obligated to follow, requires us to assess the sufficiency and appropriateness of the computer-processed information we use to support our findings, conclusions, or recommendations.

In performing this audit, we relied on electronic data files that we obtained from the State Treasurer's Office to determine the dollar amount of bonds that school districts have been authorized to sell in the last 20 years. We performed completeness and accuracy testing to evaluate these data. As a result of this testing, we found the data sufficiently reliability for our audit purposes.

We also relied on electronic data files that we obtained from the OPSC that contained data for all of the modernization applications that received unfunded approval in fiscal years 2018–19 through 2020–21. We used these data files to make a selection of modernization applications to review and to identify the amount of time it took modernization applications to receive funding approval. We performed accuracy and completeness testing on the data and determined the data to be sufficiently reliable for our audit purposes. Additionally, we used different OPSC electronic data files to identify the amount of facilities program funding requested by school districts and used these data to project future need for modernization funding. We performed accuracy and completeness testing on these data and concluded that they are of undetermined reliability. Nevertheless, we still used the data to support our projections because they were the best data available.

We relied on electronic data obtained from the U.S. Census Bureau, Education, county assessors, and other county offices to determine school districts' assessed property value per pupil and median household income. To evaluate these data, we reviewed existing information about the data and performed electronic testing of the data. We determined these data are sufficiently reliable for our audit purposes.

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January 2022



DATE: January 10, 2022
TO: Michael S. Tilden, CPA
FROM: Yolanda Richardson, Secretary
SUBJECT 2021-115 – “School Facilities Program: California Needs Additional Funding and a More Equitable Approach to Modernizing Its School Facilities”

Thank you for the opportunity to respond to the California State Auditor’s Office (CSA) audit that was approved by the Joint Legislative Audit Committee (JLAC), on June 30, 2021, regarding the School Facilities Program (SFP) that is administered by the Office of Public School Construction (OPSC), within the Department of General Services (DGS).

OPSC appreciates that the CSA does not have any recommendations as to how the program is currently being administered and its acknowledgement that OPSC is compliant with statute and regulations regarding how SFP funds are distributed and awarded. OPSC welcomes the opportunity for further dialogue and engagement as to what future changes would, and would not, be beneficial to the SFP.

If OPSC can offer any further assistance with this report, please do not hesitate to contact Lisa Silverman, Executive Officer at (279) 946-8460 or Lisa.Silverman@dgs.ca.gov.


Yolanda Richardson
Secretary
Government Operations Agency