State of California • Arnold Schwarzenegger, Governor
State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES
Interagency Support Division • Office of Public School Construction
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Date: June 3, 2009

To: All School Districts and County Superintendents of Schools

From: **Department of General Services**
Office of Public School Construction

Subject: **DEFERRED MAINTENANCE POLICY FOR SCHOOL FACILITY PROGRAM (SFP) FINANCIAL HARDSHIP DISTRICTS**

Per recent revisions to the State Budget Act and changes to the California Education Code, Section 42605, school districts have flexibility to use Deferred Maintenance funding for any educational purpose. This flexibility is in effect from the 2008-09 fiscal year to the 2012-13 fiscal year. The Office of Public School Construction (OPSC) offers the following guidelines to Districts that are currently or may become Financial Hardship (FH) Districts and are considering using their Deferred Maintenance disbursements for other purposes.

The OPSC will not consider the Deferred Maintenance proceeds as available for district contribution on their School Facility Program (SFP) projects in the course of a Financial Hardship review.

- A District may obtain bridge financing with the proceeds used and/or encumbered for a Deferred Maintenance Extreme Hardship project.
    - Districts must contact the OPSC in writing with their request to seek bridge financing prior to issuing any debt instrument. This request must specifically list the Deferred Maintenance Extreme Hardship project that will be moved forward with the bridge financing instrument.
    - The District's bridge financing instrument must either be a certificate of participation, lease-purchase agreement, or other lease financing arrangement entered into with a party other than the applicant district for the purpose of financing eligible Deferred Maintenance Extreme Hardship project costs authorized in Education Code.
    - The net bridge financing proceeds shall not exceed 105 percent of the total estimated Extreme Hardship project cost received over five years. The State Allocation Board (SAB) established the yearly baseline for funding at the April 2009 SAB meeting. The net financing proceeds shall not exceed the amount of the bridge financing instrument less finance cost of issuance, debt service reserve fund, and capitalized interest costs related to the to the bridge financing.
    - The bridge financing instrument will be paid off with the Deferred Maintenance funding to be received over the next five years.
    - Once the fifth year of Deferred Maintenance funding is received the District must retire the bridge financing debt within **60 calendar days** of receiving the State funding.
    - The District must submit documentation showing the debt has been retired. This documentation would include the following:
        - The Detailed General Ledger which documents the transaction; and
        - School Board resolution or School Board minutes authorizing the debt retirement.

- A District may use the Deferred Maintenance proceeds for capital outlay or the district's share of a SFP project.

For more information please contact Jason Hernandez at (916) 324-4687 or Steve Inman at (916) 445-3269.

ROB COOK
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Office of Public School Construction
SAB