

REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, October 26, 2005

FINANCIAL HARDSHIP EQUITY ISSUES

PURPOSE OF REPORT

To present a report on the outcome of the Financial Hardship Equity Issues discussion at the State Allocation Board (SAB) Implementation Committee meetings.

BACKGROUND

A report on Financial Hardship Equity Issues (attached) was presented to the SAB at its May 3, 2005 meeting. The SAB requested that the report be taken to the Implementation Committee to obtain input from school facility construction stakeholders. Throughout the Committee meeting discussions, there was significant debate and concern expressed by the Committee and audience members regarding the proposed regulatory amendments.

In considering the amendments, the Committee was unable to find a proper balance between protecting the State's resources and assuring adequate assistance for districts in financial need. Each suggested solution raised a number of corresponding problems for the districts and/or the State. Therefore, Staff is recommending not proceeding with the regulatory amendments at this time.

DESCRIPTION

The following is a summary of the primary issues discussed through the Implementation Committee:

Funds Generated After Initial Financial Hardship Approval

To address concerns with local funding being made available after financial hardship approval, Staff proposed to continue to capture available funds for application against the project until the final expenditure report is accepted.

This proposal was met with resistance by Committee members and the audience who believed it would keep districts in the Financial Hardship Program longer than necessary and would restrict districts' control over future income. Further, some members were concerned that variables outside the districts' control (i.e., litigation, land use issues, etc.) would extend the final expenditure report period beyond the actual project term.

Financial Hardship Approval Duration

Districts indicated that a six-month approval duration was too brief given the extent of the documentation required for the review. To address this concern and to complement the potentially longer period of time to capture available local funds (through final expenditure report), Staff proposed to extend the financial hardship approval period from six months to one year.

This proposal is no longer viable because it is inter-reliant with the proposal to extend the period of time to capture available local funds, which is no longer being recommended as a regulatory change.

Bonded Indebtedness Level/Bridge Financing

Changes were considered to address Certificates of Participation issued or non-repayment of bridge financing for the express purpose of meeting the 60 percent indebtedness requirement.

Staff believes after detailed discussion and legal consultation that current regulations and administrative authority are sufficient to address these issues. As a result, no regulatory amendments were proposed.

DESCRIPTION (cont.)

Recognition of Encumbrances

To address concerns with districts deliberately encumbering funds just prior to the initial financial hardship application submittal, Staff proposed to disallow inappropriate encumbrances made within six months prior to the submittal.

This proposal was met with resistance by Committee members and the audience who believed it would severely limit the districts' ability to prioritize the use of local Capital Facility funds. Although no regulatory changes are recommended at this time, Staff will continue to monitor this issue and elevate questionable encumbrances to the SAB for consideration, as appropriate.

Adequacy of Financial Hardship Assistance

The SAB requested the Committee discuss possible negative impacts to financial hardship districts under the current regulations. The vast majority of the comments received were related to the purported inadequacy of the School Facility Program (SFP) grants.

After extensive discussion, it was determined that this issue should be more comprehensively addressed by an ad hoc group examining the adequacy of the SFP grants as a whole. This process is currently underway.

STAFF COMMENTS

Staff believes that based on Implementation Committee members' feedback and Staff's research, the proposed financial hardship regulatory amendments should not be enacted at this time. However, it is clear that these discussions raised the school districts' level of awareness regarding the areas of concern to avoid in the future when seeking financial hardship assistance. Staff will continue to monitor these issues and elevate questionable financial hardship applications to the SAB for guidance to ensure that financial hardship funding is dispersed equitably.

RECOMMENDATIONS

1. Do not proceed with changes to the financial hardship provisions in the SFP Regulations at this time.
2. Equity issues regarding financial hardship may be addressed in the next bond measure if the Legislature deems it appropriate.