

**STATE ALLOCATION BOARD**

1130 K Street, Suite 400  
Sacramento, CA 95814  
<http://www.dgs.ca.gov/opsc>



**Date:** March 24, 2008

**To:** Interested Parties

**Subject:** **NOTICE OF THE STATE ALLOCATION BOARD  
IMPLEMENTATION COMMITTEE MEETING**

Notice is hereby provided that the State Allocation Board Implementation Committee will hold a meeting on *Friday, April 4, 2008* from 9:30 a.m. to 3:30 p.m. in the Legislative Office Building located at 1020 "N" Street, Room 100, Sacramento, California.

The Implementation Committee's proposed agenda is as follows:

- 1) Convene Meeting
- 2) Use of Site Sale Proceeds  
*Continued discussion on regulatory amendments to address the use of site sale proceeds to fund, on a one-time basis, district's insolvent health or retirement program*
- 3) Material Inaccuracy Regulations  
*Continued discussion on proposed regulatory amendments for protections in reporting on the Project Information Worksheet*
- 4) Material Inaccuracy Penalties  
*Continued discussion of the Material Inaccuracy penalties*
- 5) Assembly Bill 1014 (Bass)  
*Discussion of 10th year projections and pupil residence reporting for High School Attendance Areas*
- 6) Financial Hardship Checklist  
*Discussion of policy implications of the Financial Hardship Checklist published January 7, 2008*

Any interested person may present public testimony or comments at this meeting regarding the issues scheduled for discussion. Any public input regarding unscheduled issues should be presented in writing, which may then be scheduled for a future meeting. For additional information, please contact Carrie Richter at (916) 445-3159.

A handwritten signature in black ink that reads "Maivonne Garrity".

MAVONNE GARRITY, Chairperson  
State Allocation Board Implementation Committee

MG:cr

Individuals who need auxiliary aids for effective participation are invited to make their requests and preferences known to Ms. Carrie Richter at (916) 445-3159 five days prior to the meeting.

STATE ALLOCATION BOARD  
IMPLEMENTATION COMMITTEE

Pending Items List  
March 7, 2008

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A. Future Items

- Proposed regulations to AB 1014 (Bass), Chapter 691, Statutes of 2007  
*This bill allows certain alternative School Facility Program eligibility projection methodologies.*
- Site Sale Proceeds  
*Discussion on proposed regulatory amendments regarding proceeds from the sale of a site funded in whole or part with State funds.*
- Alternative Education Loading Standards and Funding  
*Discussion on the loading standards and adequacy of the funding provided for continuation high, community day, and county community day schools under the School Facility Program.*

STATE ALLOCATION BOARD  
IMPLEMENTATION COMMITTEE  
April 4, 2008

MATERIAL INACCURACY REGULATIONS

PURPOSE

To discuss proposed regulatory amendments, which give school districts protections in reporting on the Project Information Worksheet.

BACKGROUND

This item was presented at the March 7, 2008 Implementation Committee meeting. The OPSC Staff received comments from audience and committee members in regards to the language in the proposed regulation. This item is being brought back to the Implementation Committee for review to address those comments. Also, the Project Information Worksheet was presented at the July and August 2007 State Allocation Board (SAB) meetings, and was adopted by the SAB at its September 2007 meeting. At its January 2008 meeting, the SAB approved revisions to the Project Information Worksheet and the submittal of the rulemaking file to the Office of Administrative Law. The OPSC Staff recommended, and the SAB requested, that Staff review and present proposed amendments to Regulation Section 1859.104.1 (Material Inaccuracy Penalties) at a future SAB meeting to clarify the purpose of the worksheet as it relates to material inaccuracies.

AUTHORITY

To make a finding of Material Inaccuracy, EC Section 17070.51(a) states, "If any certified eligibility or funding application related information is found to have been falsely certified by school districts, architects or design professionals, hereinafter referred to as a Material Inaccuracy, the OPSC shall notify the Board."

SFP Regulation Section 1859.2 (Definition of Material Inaccuracy), "Means any falsely certified eligibility or funding application related information submitted by the school districts, architects or other design professionals that allowed the school district an advantage in the funding process."

DISCUSSION

*Revisions to Regulation Section 1859.104.1*

The SAB requested that the OPSC Staff review and suggest changes to this regulation. Revising Regulation Section 1859.104.1 to include an exception for reporting inaccuracies on the Project Information Worksheet will make it clear to districts that the information submitted on the worksheet with the District's most accurate information available at the time of the filing will not be used in the determination of a potential Material Inaccuracy finding. As a result of the March 2008 Implementation Committee meeting, Staff is presenting a revision to the proposed regulatory change that provides districts with reporting protections.

The proposed regulation was revised based on the interest expressed by some of the members at last month's Implementation Committee meeting to eliminate the phrases "good faith" and "in and of itself". After discussion with SAB legal counsel, the proposed regulation was changed to protect the District in submitting the most accurate information available at the time of filing the Project Information Worksheet.

**SCHOOL FACILITY PROGRAM**  
Proposed Amendments to Regulations

**Section 1859.104.1. Material Inaccuracy Penalties.**

A school district filing a Project Information Worksheet with the most accurate information available at the time of filing will not be subject to a Material Inaccuracy for that information.

When the Board makes a finding that a Material Inaccuracy occurred for a SFP Project, the district shall be subject to the following penalties:

(a) If the Material Inaccuracy finding occurred prior to the apportionment, the district shall be:

(1) Prohibited from self-certifying the project information for a period of up to five years from the date the Board made the finding of Material Inaccuracy for the project. A prohibition from self-certification of project information may be less than five years as determined on a case-by-case basis by the Board.

(2) Required to file all projects pursuant to Section 1859.104.2 for the time period required in subsection (a)(1).

(3) Subject to the fee prescribed by Section 1859.104.3.

(b) If the Material Inaccuracy finding occurred after the apportionment but no funds have been released for the project:

(1) The Board shall reduce the project apportionment by the additional funding received beyond the amount the district was entitled to for the project.

(2) The school district shall be prohibited from self-certifying project information for a period of up to five years from the date the Board made the finding of Material Inaccuracy for the project. A prohibition from self-certification of project information may be less than five years as determined on a case-by-case basis by the Board.

(3) The school district shall be required to file all projects pursuant to Section 1859.104.2 for the time period required in subsection (b)(2).

(4) The school district shall be subject to the fee prescribed by Section 1859.104.3.

(c) If the Material Inaccuracy finding occurred after the apportionment and funds were released for the project, the district:

(1) Must repay the additional funding received beyond the amount the district was entitled to for the project with interest within five years from the date the Board made the finding of Material Inaccuracy. Interest shall be assessed as prescribed in Education Code Section 17070.51(b)(1).

(2) Shall be prohibited from self-certifying project information for a period of up to five years from the date the Board made the finding of Material Inaccuracy for the project. A prohibition from self-certification of project information may be less than five years as determined on a case-by-case basis by the Board.

(3) Shall be required to file all projects pursuant to Section 1859.104.2 for the time period required in subsection (c)(2).

(4) Shall be subject to the fee prescribed by Section 1859.104.3.

(d) The Board may direct that adjustments to the school district's New Construction or Modernization baseline eligibility be made pursuant to Sections 1859.51 and 1859.61 based on the determination of Material Inaccuracy.

STATE ALLOCATION BOARD  
IMPLEMENTATION COMMITTEE  
April 4, 2008

MATERIAL INACCURACY PENALTIES

PURPOSE

To continue the discussion of the Material Inaccuracy Penalties item presented at the February 27, 2008 State Allocation Board (SAB) meeting.

BACKGROUND

This item was partially presented at the March 7, 2008 Implementation Committee meeting, and Staff took note of primary issues raised at the meeting. Due to the time constraints and the need for further discussion, it was agreed that the remainder of the topics covered in the item will be presented for discussion at the April 4, 2008 Implementation Committee meeting.

While some have contended that premature or invalid certifications on the *Fund Release Authorization* form leading to Material Inaccuracies is becoming a widespread issue, Staff would like to report that the vast majority of districts are self-certifying correctly. As of February 29, 2008, 3,667 projects have been closed and, subsequent to audit, 36 projects were found to have a Material Inaccuracy due to premature or invalid certification on the *Fund Release Authorization* form. This illustrates that over 99% of projects audited contain valid certifications.

At the February 2008 SAB meeting, the Board was presented an item which discussed the practices used by the Office of Public School Construction (OPSC) to determine the recommended length of time for the loss of self-certification in association with a Material Inaccuracy, and the methods used to calculate the interest penalty associated with Material Inaccuracy for projects with funding advantages and for projects requiring rescission. This SAB item outlined the background and methodologies used in presenting penalty recommendations to the SAB specifically for this form of Material Inaccuracy. The SAB item identified the most common form of Material Inaccuracy as a premature or invalid certification on the *Fund Release Authorization* form that the school district entered into binding contract(s) for at least 50 percent of the construction included in the plans applicable to the State-funded project. The following is a detailed explanation of how a district can calculate the amount which is required to be under contract(s) at the time of the fund release certification to verify its own calculations and to ensure it has met the 50% requirement:

Construction costs of the work in the Division of the State Architect (DSA) approved plans and specifications for a project must be at least 60 percent of the total grant amount provided by the State and the district's matching share, less site acquisition costs for new construction projects. Of that 60 percent, at least 50 percent of the construction included in the plans and specifications applicable to the state funded project must be under binding contract(s) at the time the district signs the *Fund Release Authorization* form. Please see example below:

Total Grant Amount (district and State share, less any site acquisition costs):.....	\$1,000,000
Minimum threshold of construction costs in the DSA approved plans and specifications:.....	\$600,000
Amount which must be under contract(s) at the time of the fund release certification:.....	\$300,000

AUTHORITY

Material Inaccuracy is defined by the School Facility Program (SFP) Regulation Section 1859.2 as any falsely certified application that allowed the district an advantage in the funding process. Education Code (EC) Section 17070.51 requires the OPSC to notify the SAB if any such certifications have been found. This EC Section also provides the SAB with the authority to impose penalties if a finding of Material Inaccuracy has been made by the SAB. The penalties to the district consist of, but are not limited to:

- Repayment of additional funding received beyond the amount the district was entitled to for the project
- Repayment of interest earned on the funding received beyond what the district was entitled to for the project
- Prohibition of self-certification for a period of up to 5 years

For a complete list of Authority citations for Material Inaccuracy, please see Attachment A.

DISCUSSION

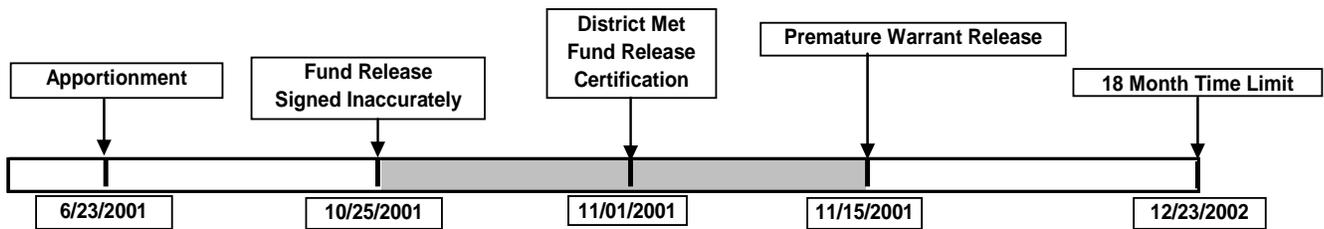
The SAB item presented three scenarios which outlined how the interest penalty associated with a Material Inaccuracy, in the form of a premature or invalid fund release certification, was calculated for each example. Also, the item encapsulated the methodology utilized in recommending the prohibition period for the loss of self-certification privileges. The penalties outlined are contingent upon a finding of Material Inaccuracy by the SAB.

*Interest Penalties on Premature or Invalid Fund Releases*

SCENARIO 1

PREMATURE FUND RELEASE  
(NO FUNDING ADVANTAGE, NO MATERIAL INACCURACY)

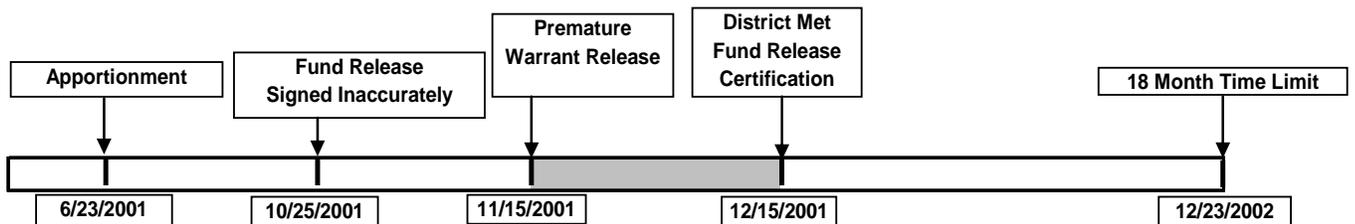
The first scenario presented in the SAB item outlined a scenario in which there was no funding advantage to the district and therefore no Material Inaccuracy. Even though the district prematurely certified on 10/25/2001 (i.e., did not have at least 50 percent of the work in the plans and specifications under contract), there was no funding advantage obtained by the district. The district met the *Fund Release Authorization* certification through various contracts on 11/1/2001, before the warrant was released and therefore received no interest or funding advantage. The shaded area on the timeline below represents the period, after the fund release authorization was signed, in which the district could still have met the *Fund Release Authorization* certification and still not have obtained a funding advantage.



## SCENARIO 2

### PREMATURE FUND RELEASE (FUNDING ADVANTAGE, MATERIAL INACCURACY)

The example below represents a premature fund release with a funding advantage. The district certified on 10/25/2001 to have met the certification on the *Fund Release Authorization* form; however, the district did not comply with the fund release requirements until 12/15/2001. The funding advantage (shaded area) occurred from the date the warrant was released on 11/15/2001 to when the district met the *Fund Release Authorization* requirements on 12/15/2001. The number of days associated with the funding advantage (interest on funds that should not have been released) is 30 days.



The following is an example of how interest penalties would be calculated on the project in Scenario 2. In this example, the amount of the warrant released was \$500,000, the Pooled Money Investment Account (PMIA) rate the State was earning at the time the warrant was issued to the district was 3.526%, and the number of days of the funding advantage was 30 days. The formula for the calculation of interest penalty for the above scenario is as follows:

- *Warrant Amount times the Annual Interest Rate divided by 365 days times the Number of Days of the Funding Advantage, or*
- $\$500,000 \times (3.526\% / 365) \times 30 = \$1,449$  in recommended interest penalties to make the bond funds whole.

## SCENARIO 3

### INVALID FUND RELEASE (FUNDING ADVANTAGE, MATERIAL INACCURACY COMBINED WITH VIOLATION OF LAW REQUIRING RESCISSION)

Scenario 3 presents an additional and more serious violation of the law than Scenarios 1 and 2 because it also includes a violation of EC Section 17076.10(d). This section of law requires that once a district receives an apportionment for a project, the district has a maximum of 18 months to meet the criteria to have the funds released. When this time limit is not met, the EC requires that *the board shall rescind the apportionment and deny the district's application*. The law contains no provision for extension or exemption. In this example, the 18-month time limit expired on 12/23/2002. By the time the district had binding contract(s) for at least 50 percent of the construction included in the plans on 1/22/2003, it had already exceeded the 18-month time limit in law, the project was required by law to be rescinded, and the project approval was no longer valid. As a result, the district did not and does not qualify to receive a fund release. The fund release that occurred is invalid. Since the funds had been released to the district, the district received a funding advantage (shaded area in Figure A), and the State lost interest

*Interest Penalties on Premature or Invalid Fund Releases (cont.)*

SCENARIO 3 (cont.)

on these funds during the period of time that the funds should have remained in the State bond fund earning interest. Therefore, the interest is calculated from the date the warrant was released to the date the district concurred with the contract audit finding, or the date the item is presented to the SAB, whichever occurs first. This is consistent with the requirements of EC Section 17070.51(b)(1) which states in part that “the school district shall repay to the board...an amount proportionate to the additional funding received as a result of the Material Inaccuracy including interest at the rate paid on moneys in the Pooled Money Investment Account...”

For this scenario, the amount of the warrant released was \$500,000, the PMIA rate the State was earning at the time the warrant was issued to the district was 3.526%, and the number of days of the funding advantage was 767 days. The formula for the calculation of interest penalty for the above scenario is as follows:

- *Warrant Amount times the Annual Interest Rate divided by 365 days times the Number of Days of the Funding Advantage or*
- $\$500,000 \times (3.526\% / 365) \times 767 = \$37,047$  in recommended interest penalties to make the bond funds whole.
- Additionally, the \$500,000 must be returned to the State

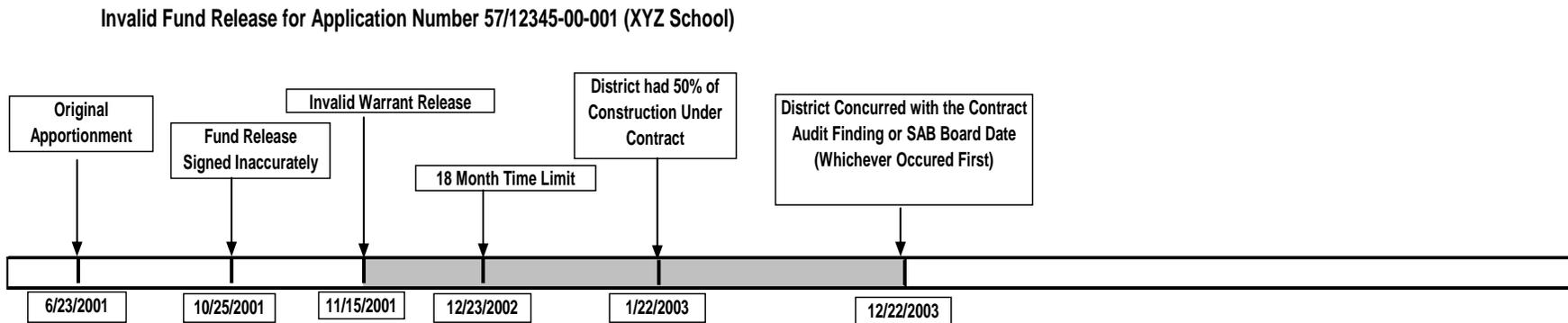
MODERNIZATION REIMBURSEMENT

SFP Regulation Section 1859.90 provides the district with an opportunity to re-file a new application for the project which was rescinded. However, this only applies to modernization projects. Pursuant to Regulation Section 1859.79.1 (Modernization Reimbursement), the Board will provide modernization funding for a project if the district entered into a construction contract for that project after August 27, 1998. Section 1859.70 prohibits reimbursement for new construction projects citing that the Board shall only provide new construction funding if the approved application was received by the OPSC prior to the date of occupancy for any classrooms included in the construction contract.

In this scenario, when a modernization project is rescinded, and if the district wishes a new apportionment, the district is required to file a new *Funding Application* Form SAB 50-04. The project is assigned a new application number and is given a new apportionment date. The 18 month time limit on fund release is now based on the new apportionment date. Since the district, in this example, had binding contract(s) for at least 50 percent of the construction included in the plans on 1/22/2003, it can sign the *Fund Release Authorization* form immediately following the new apportionment. In this instance, the certification made on this form would be valid since the district meets the criteria to have funds released. The district obtains a new fund release date. This process is illustrated on Figure B.

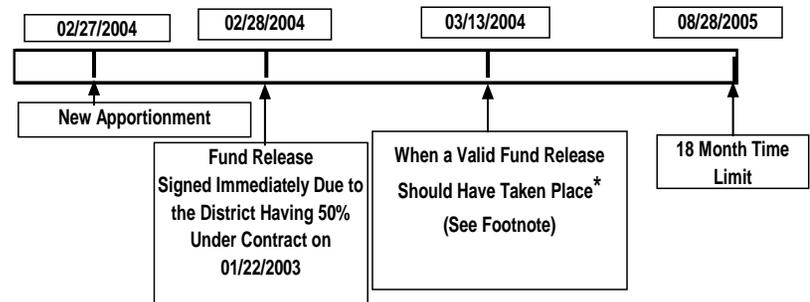
SCENARIO 3 (cont.)

**FIGURE A**



**FIGURE B**

**Valid Fund Release for Application Number 57/12345-00-058 (XYZ School)**  
(Separate New Application and Apportionment)



\* Instead of going through the cumbersome process of requiring the district to remit the original apportionment and then require that the State issue a warrant back to the district, the Board has authorized Staff to streamline the process and make the appropriate accounting entries to reconcile the rescission and to facilitate the new apportionment and new fund release date.

### *Loss of Self-Certification Recommendations for Premature Fund Releases*

Loss of self-certification does not prohibit the district from completing certifications of eligibility or funding applications. However, the district is required to present proof that the certifications made are valid and true. In making loss of self-certification recommendations to the SAB, Staff considers a number of factors relative to the project(s) being audited as well as previously closed projects of the district. Those factors include:

- Did the project(s) meet the *Fund Release Authorization* requirements before the 18-Month Time Limit on Fund Release?
- Does the district have prior rescission(s) associated with premature fund releases?
- What is the cumulative total, in days, of all non-compliance for all premature fund releases for the district? (Note: Non-compliance refers to the period from warrant release date to the date the district met the *Fund Release Authorization* requirements for past and current items.)
- Does the district have other audit findings related to current or past audits?
- Are there any other mitigating circumstances to consider?

Most of these factors are incorporated in a flowchart (See Attachment B) that assists Staff in formulating a loss of self-certification recommendation to the SAB.

### *Revisions to the Material Inaccuracy Regulations*

Based on the practices and methodologies outlined above and the loss of self-certification guidelines specified on Attachment B, some Board members expressed an interest in possible changes to the current Material Inaccuracy regulations.

While the Staff recognizes the need for formal guidelines, there are some concerns in establishing regulations that mandate specific Material Inaccuracy penalties. Currently, the SAB considers Staff's recommendations, but has the authority to impose the appropriate penalties based on the specific circumstances. Establishing regulations to impose specified Material Inaccuracy penalties prevents the SAB from having the latitude to consider extenuating circumstances.

### CONSIDERATIONS

During the SAB meeting, testimony was provided that incorrectly cited EC Section 17041.2(c) which allows the district to seek a binding arbitration process if the district believes that the Material Inaccuracy penalties imposed by the Board are disproportionate to the inaccuracy certified by the district. This EC Section pertains to projects apportioned from the State School Building Lease-Purchase Fund and therefore has no bearing on projects apportioned from the 1998 State School Facilities Fund; the School Facility Program.

Also, at the SAB meeting, the loss of self-certification penalties were discussed. EC Section 17070.51(b)(2) states that, "The board shall prohibit the school district from self-certifying certain project information for any subsequent applications for project funding for a period of up to five years following the date of the finding of a Material Inaccuracy or until the district's repayment of the entire amount owed under paragraph (1)." However, the SFP Regulation Section 1859.104.1(c)(2) further clarifies EC Section 17070.51(b)(2) and requires that the district "shall be prohibited from self-certifying project information for a period of up to five years from the date the Board made the finding of Material Inaccuracy for the project. A prohibition from self-certification of project information may be less than five years as determined on a case-by-case basis by the Board." It was implied that the EC Section specifically states that the self-certification prohibition period shall end when the district repays the entire amount owed

## CONSIDERATIONS (cont.)

under paragraph (1). This is only true if the SAB chooses to exercise its authority to approve a loss of self-certification other than what is recommended by Staff.

A concern was raised regarding the methodology used in calculating the number of days in which the district received a funding advantage in Scenario 3. The number of days is calculated from the date the warrant was released to the date the district concurs with the contract audit finding, or the date the item is presented to the SAB, whichever occurs first. Staff emphasizes that the district's concurrence with the contract audit finding is merely of the facts associated with the date(s) and amount(s) for the project contract(s) and does not preclude a district from appealing to the Board. The concern raised was that since there is a significant amount of time from the invalid warrant release date to when the OPSC made the audit finding, the district is penalized to a greater extent due to the length of the project completion, district reporting, and OPSC audit processes. However, Staff would like to convey that the district is solely responsible for signing the *Fund Release Authorization* form and authorizing the certification made on the Form. The district, through its proper internal controls and contract management, is able to verify whether its certifications made on the Form are valid. The district is in possession of the project documents years in advance of the project reaching audit. If a district is concerned about this issue, it is incumbent upon the district to look through records to ensure that various certifications made by the district are appropriate.

## ATTACHMENT A

### AUTHORITY

#### EDUCATION CODE SECTION 17070.51

17070.51. (a) If any certified eligibility or funding application related information is found to have been falsely certified by school districts, architects or design professionals, hereinafter referred to as a material inaccuracy, the Office of Public School Construction shall notify the board.

(b) The board shall impose the following penalties if an apportionment and fund release has been made based upon information in the project application or related materials that constitutes a material inaccuracy.

(1) Pursuant to a repayment schedule approved by the board of no more than five years, the school district shall repay to the board, for deposit into the 1998 State School Facilities Fund, an amount proportionate to the additional funding received as a result of the material inaccuracy including interest at the rate paid on moneys in the Pooled Money Investment Account or at the highest rate of interest for the most recent issue of state general obligation bonds as established pursuant to the Chapter 4 (commencing with Section 16720), of Part 3 of Division 4 of Title 2 of the Government Code, whichever is greater.

(2) The board shall prohibit the school district from self-certifying certain project information for any subsequent applications for project funding for a period of up to five years following the date of the finding of a material inaccuracy or until the district's repayment of the entire amount owed under paragraph (1). Although a school district that is subject to this paragraph may not self-certify, the school district shall not be prohibited from applying for state funding under this chapter. The board shall establish an alternative method for state or independent certification of compliance that shall be applicable in these cases. The process shall include, but shall not be limited to, procedures for payment by the school district of any increased costs associated with the alternative certification process.

(c) For school districts found to have provided material inaccuracies when a funding apportionment has occurred, but no fund release has been made, the board shall direct its staff to reduce the apportionment as necessary to reflect the actual nature of the project and to disregard the inaccurate information or material, and paragraph (2) of subdivision (b) shall apply.

(d) For those school districts found to have provided material inaccuracies when no funding apportionment or fund release has been made, the inaccurate information or materials shall not be considered, and paragraph (2) of subdivision (b) shall apply. The project may continue if the application, minus the inaccurate materials, is still complete.

#### AUTHORITY REGARDING PREMATURE FUND RELEASE AND RESCISSION

##### Fund Release Criteria

EC Section 17072.32 in part states that the essential element necessary to meet the criteria of a fund release is to have "...a binding contract for the completion of the approved project".

SFP Regulation Section 1859.90 states, "...the OPSC will release State funds that have been apportioned by the Board to the district after submittal, by the district, of the Form SAB 50-05."

Form SAB 50-05, incorporated by reference in SFP Regulation Section 1859.90, requires the district, as a condition of funding, to certify that it has entered into a binding contract(s) for at least 50 percent of the construction included in the plans applicable to the state funded project.

EC Section 17072.32(a) states, "For any project that has received an apportionment pursuant to Section 17072.30, funding shall be released in amounts equal to the amount of the local match upon certification by the school district that the school district has entered into a binding contract for completion of the approved project."

##### Material Inaccuracy

SFP Regulation Section 1859.2 (Definition of Material Inaccuracy), "Means any falsely certified eligibility or funding application related information submitted by the school districts, architects or other design professionals that allowed the school district an advantage in the funding process."

(Continued on the next page)

ATTACHMENT A

### Material Inaccuracy (cont.)

To make a finding of Material Inaccuracy, EC Section 17070.51(a) states, "If any certified eligibility or funding application related information is found to have been falsely certified by school districts, architects or design professionals, hereinafter referred to as a Material Inaccuracy, the OPSC shall notify the Board."

### Material Inaccuracy Penalties

EC Section 17070.51(b) states that, "The board shall impose the following penalties if an apportionment and fund release has been made based upon information in the project application or related materials that constitutes a Material Inaccuracy."

EC Section 17070.51(b)(1) states that, "Pursuant to a repayment schedule approved by the board of no more than five years, the school district shall repay to the board...an amount proportionate to the additional funding received as a result of the Material Inaccuracy including interest at the rate paid on moneys in the Pooled Money Investment Account..."

### Repayment of Material Inaccuracy Interest Penalty

SFP Regulation Section 1859.104.1(c)(1) states the district "must repay the additional funding received beyond the amount the district was entitled to for the project with interest within five years from the date the Board made the finding of Material Inaccuracy. Interest shall be assessed as prescribed in Education Code Section 17070.51(b)(1)."

### Rescission of Project Apportionment

EC Section 17076.10(d) states, "If a school district has received an apportionment, but has not met the criteria to have funds released pursuant to Section 17072.32 or 17074.15 within a period established by the board, but not to exceed 18 months, *the board shall rescind the apportionment* and deny the district's application."

SFP Regulation Section 1859.90 states, "...a district must submit the Form SAB 50-05, within 18 months of the Apportionment of the SFP grant for the project or the entire...apportionment shall be rescinded without further Board action, and the pupils housed in the project, if applicable, will be added back to the district's baseline eligibility. The district may re-file a new application for the project subject to district eligibility and priority funding at the time of resubmittal."

## AUTHORITY REGARDING LOSS OF SELF-CERTIFICATION

EC Section 17070.51(b)(2) states that, "The board shall prohibit the school district from self-certifying certain project information for any subsequent applications for project funding for a period of up to five years following the date of the finding of a Material Inaccuracy or until the district's repayment of the entire amount owed under paragraph (1)." The statute further states, "...The board shall establish an alternative method for state or independent certification of compliance that shall be applicable in these cases. The process shall include, but not be limited to, procedures for payment by the school district of any increased costs associated with the alternative certification process."

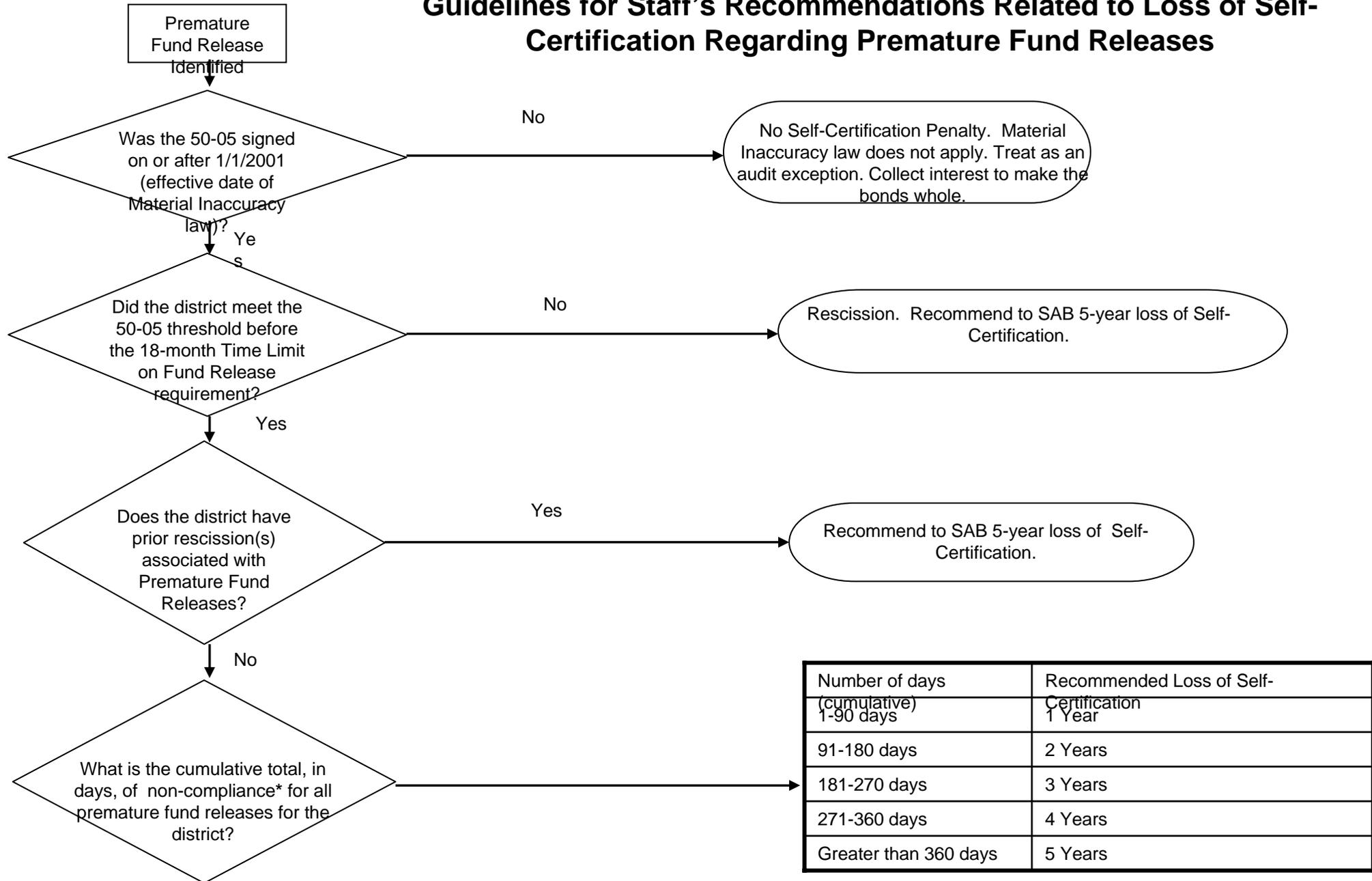
SFP Regulation Section 1859.104.1(c)(2) further clarifies EC Section 17070.51(b)(2) and requires that the district "shall be prohibited from self-certifying project information for a period of up to five years from the date the Board made the finding of Material Inaccuracy for the project. A prohibition from self-certification of project information may be less than five years as determined on a case-by-case basis by the Board."

SFP Regulation Section 1859.104.1(c)(3) states the district shall file all projects pursuant to Section 1859.104.2 for a period of up to five years from the date the Board made the finding of Material Inaccuracy for the project.

SFP Regulation Section 1859.104.1(c)(4) states the district shall be subject to the fee prescribed by Section 1859.104.3, which states if the SAB has made a finding of Material Inaccuracy, the SAB shall charge the district an amount of \$100 per hour for the additional hours to process and review the district's applications submitted during the timelines prescribed in Section 1859.104.1(c)(2).

# ATTACHMENT B

## Guidelines for Staff's Recommendations Related to Loss of Self-Certification Regarding Premature Fund Releases



\*Non-compliance refers to the period from warrant release date to the date the district met the 50-05 threshold for past and current items.

**ATTACHMENT C  
PAST MATERIAL INACCURACIES**

School District	Interest Penalty Assessed?	How was interest calculated?			Premature Fund Release?	SAB Approved Loss of Self-Certification	Reason for Material Inaccuracy		
		Period from the warrant release date to the date of the SAB approved rescission	Period from the warrant release date to the date the District agreed to the audit findings	Period from the warrant release date to the date the construction contracts/School Board Award Dates meets the <i>Fund Release Authorization</i>			Funding advantage through the false certification of <i>Enrollment Certification</i> (Form SAB 50-01).	Funding advantage through the false certification of <i>Fund Release Authorization</i> (Form SAB 50-05)	Funding advantage through the Non-disclosure of Certificates of Participation
<b>A</b>	Y		X		Y	5 years	X		
<b>*B1</b>	Y	X			Y	5 years		X	
<b>*B2</b>	Y			X	Y	5 years		X	
<b>**C1</b>	Y			***X	Y	****5 years		X	
<b>**C2</b>	Y			X	Y	****5 years		X	
<b>D</b>	Y			X	Y	1 year		X	
<b>E</b>	Y	X			N/A	5 years			X
<b>F</b>	Y			X	Y	*****TBD		X	
<b>G</b>	Y			X	Y	*****TBD		X	

Footnotes:

\*District B, in the same SAB item, had both premature fund releases with rescissions (B1) and premature fund releases (B2).

\*\*District C, in the same SAB item, had both premature fund releases with rescissions (C1) and premature fund releases (C2).

\*\*\*The interest calculations for District C1 were calculated incorrectly. The interest should have been calculated from the warrant release date to the date of the SAB

\*\*\*\*Period of loss of self-certification expired when the final repayment was made.

\*\*\*\*\*Districts F and G were presented at the January 2008 SAB Meeting. The length of the self-certification penalty will be determined at a future SAB meeting.

STATE ALLOCATION BOARD  
IMPLEMENTATION COMMITTEE  
April 4, 2008

Assembly Bill 1014: ENROLLMENT PROJECTION AUGMENTATIONS

PURPOSE

To continue discussion of Assembly Bill (AB) 1014, Chapter 691, Statutes of 2007 (Bass). AB 1014 requires the State Allocation Board (SAB) to augment the enrollment projection calculation method used to establish eligibility for new construction funding under the provisions of the School Facility Program (SFP). This item includes discussion of:

- A proposal by the Office of Public School Construction (OPSC) staff regarding 10-year enrollment projection, and
- A proposal on the use of residency data to project enrollment for districts that establish eligibility on a High School Area Attendance (HSAA) basis.

BACKGROUND INFORMATION

Education Code (EC) Section 17071.75 authorizes a school district to submit an enrollment projection for a fifth or 10<sup>th</sup> year beyond the fiscal year in which the application is made. A school district that bases its enrollment projection calculation on a HSAA may use pupil residence in that attendance area to calculate enrollment. A school district that utilizes pupil residence shall do so for all HSAs within the district. A pupil shall not be included in a HSAA enrollment projection based on pupil residence unless that pupil was included in the California Basic Educational Data System (CBEDS) report of the district for the same enrollment year. The board may require a district to provide a reconciliation of the district wide CBEDS and residency data. The board may also adopt regulations to specify the format and certification requirements for a school district that submits residency data.

DISCUSSION

10-YEAR ENROLLMENT PROJECTION

**Proposal**

In order to calculate a 10-year enrollment projection, the projection formula could be modified to extend the amount of historical data used in determining the weighted average change. This would stabilize the short-term growths and declines in enrollment in order to generate an overall average change. To accomplish this goal the amount of historical data to be used for the projections would increase to eight years, i.e. the current enrollment reporting period and seven years of prior historical data. The proposed amount correlates to the current practice of using four years of data for five-year enrollment projections. This 80 percent ratio of source data to the projection results in eight years of data needed for a 10-year projection.

**Regulation Changes**

The *Enrollment Certification/Projection* (Form SAB 50-01) would need to be modified to include a 10-year projected enrollment calculation in addition to the five-year projection. This would allow school districts to choose either the five or 10-year projection that best suits the needs of the school district. Part A on the Form SAB 50-01, which lists enrollment data for Kindergarten through 12<sup>th</sup> grade, would need to include space for eight years of historical enrollment data rather than just four years. In Part B, the pupils attending schools chartered by another district and in Part C, pupils attending continuation high schools would all have to be expanded to include eight years of historical data as well.

Attachment A shows the proposed mathematical calculations to forecast the 10-year enrollment projection. As seen on the Attachment A, the cohort survival projection method has not been altered, but the weighted mechanisms that project enrollment have changed. The five-year projection method uses a weighted mechanism of 1-2-3, where the greatest weight is given to the most current change in enrollment. For the 10-year projection the same concept can be applied, yet the amount of historical enrollment data used would expand creating the need for a different weighting mechanism of 1-2-3-4-5-6-7.

The graphs in Attachment B illustrate the differences in projection methods for three sample school district using historical data. The solid lines indicate the actual enrollment. The lines comprised of large dashes represent a 10-year enrollment projection calculated using eight years of historical data. The lines comprised of small dashes represent the current five-year enrollment projections, provided for comparison purposes.

### **Annual Adjustments for Eligibility**

EC Section 17071.75 requires a school district to update its eligibility for new construction funding by submitting an enrollment projection for either a fifth or a 10<sup>th</sup> year beyond the fiscal year in which the application is made. In order to determine ongoing new construction eligibility, the OPSC determines the difference between the current enrollment projection and the previously determined projection and applies the difference as either a positive or a negative adjustment to the district's eligibility. AB 1014 allowed school districts to utilize either a fifth or a 10<sup>th</sup> year projection. The OPSC is now considering how the calculation of ongoing eligibility, i.e. annual enrollment updates, will require revisions to accommodate districts that may want to switch between five to 10 year reporting and vice versa from one enrollment reporting period to another. The OPSC will bring this subject forward during future discussions at the Implementation Committee.

## **PUPIL REPORTING BY RESIDENCE**

### **Background**

EC Section 17071.76 and SFP Regulation Section 1859.41 outline the requirements for new construction eligibility determination based on HSAA. In order to have new construction eligibility calculated by HSAA, school districts must meet several criteria:

- Each proposed HSAA must include a currently operated high school
- The eligibility determination must be based on existing HSAA boundaries, capacity and enrollment of the HSAA
- School districts must show that if eligibility is determined on a districtwide basis, excess pupil capacity in one HSAA would "cancel out" projected unhoused pupils (and therefore potential new construction eligibility) in another HSAA

In addition, before a district may switch from HSAA to districtwide reporting, eligibility must be filed on the same basis for five years after the last apportionment based on a HSAA or Super HSAA. Lastly, for new construction eligibility purposes, the HSAA or Super HSAA boundaries may only be changed due to errors or omissions by the district or by the OPSC.

Currently, school districts that have established new construction eligibility by HSAA must report pupils by school attendance. AB 1014 adds a provision that allows enrollment reporting based on residency data. This addresses concerns school districts raised when HSAA enrollment projections were based on enrollment data only. Without taking into account both residency and school attendance in the same HSAA, pupils could be deemed adequately housed even when they live in one HSAA but are bussed to a school in another HSAA. This skews the eligibility calculations and does not adequately assess the district's housing need in a particular area.

Districts currently have the option to report pupils based on pupil residence to determine eligibility only for final apportionments for Critically Overcrowded Schools (COS) projects.

## **Proposal**

The change to EC Section 17071.75 allows districts that qualify to establish new construction eligibility by HSAA the option of reporting pupils according to either attendance or residence.

Attachment C provides a detailed description of the pupils required to be reported on the Form SAB 50-01 under the residence option. The guidelines for reporting pupils under the residence option are very similar to the existing requirements for reporting pupils under the enrollment option.

EC Section 17071.75 (A)(3) states that “A pupil shall not be included in a high school attendance area enrollment projection based on pupil residence unless that pupil was included in the CBEDS report for the district for the same enrollment year.” Because of this provision, school districts using the residence option may not report the following types of pupils on the Form SAB 50-01:

- Students residing outside the district boundaries but attending school in the district (i.e. inter-district transfers)
- Students receiving Classroom-Based Instruction in Charter Schools located within the district boundaries and are enrolled in the same grade levels or type served by the district but the Charter School does not appear on the school district's CBEDS report.

## **Additional Documentation to Be Required**

School districts using the residence option would be required to submit, in addition to the Form SAB 50-01, a copy of the governing board-approved attendance map and an enrollment distribution worksheet (See Attachment D). Similar documents are already required for school districts that use pupil residence data to justify eligibility for COS projects. The enrollment distribution worksheet will identify the pupils residing in each HSAA in the school district. This will allow the OPSC to reconcile the pupils residing in the entire district with the district's current CBEDS report.

For audit purposes, school districts will be required to retain information that can be used to verify the grade level and residence of the pupils reported on each Form SAB 50-01 submitted to the OPSC. School districts without self-certification privileges would be required to submit this additional documentation with the Form SAB 50-01. The format of this additional documentation is yet to be determined.

## **Changes of Reporting Options**

If school districts are allowed to frequently switch from the residence reporting option to the enrollment option, it is possible (See Attachment E) that a school district could obtain eligibility and funds for the same pupils more than once. Due to this, the OPSC proposes a restriction on a school district's ability to switch from the enrollment option to the residency option and vice-versa.

Currently a school district that chooses to report enrollment by HSAA must use this method for five years following the approval of a state funded project based on eligibility determined by HSAA. The OPSC proposes a similar “lock” for school districts that wish to switch from HSAA residence reporting to HSAA enrollment reporting. Instead of a predetermined lock timeline, the lock would begin from the date of the last apportionment based on eligibility determined using by HSAA residence (or HSAA enrollment). The lock would end when all State funded projects based on eligibility determined under that option have been reported as complete by submitting a final expenditure report for the project. This lock on switching to and from the HSAA residence and HSAA enrollment options would not prevent a school district from switching from HSAA (either residence or enrollment options) to districtwide reporting when that five-year period has expired. But the lock on changing to/from the HSAA residence and HSAA enrollment options would be reinstated should a school district switch back to HSAA reporting before any projects apportioned under the HSAA residence or HSAA enrollment option are closed out.

Figures are calculated on a diagonal:  
 $6593 - 6541 = 52$

Figures are calculated on a diagonal, then multiplied by "4":  
 $(6973 - 6830) \times 4 = 572$

Figures are calculated across (K only) then multiplied by "7":  
 $(7129 - 7204) \times 7 = 525$

Average Change:  
 Add the weighted enrollment change numbers across, then divide by "28":  
 $[338+4+375+408+595+918+(-525)] / 28 = 75$

Kindergarten 10-Year Projection:  
 Take the current K enrollment & add the K average change, calculate across (K only) and repeat 9 times:  
 $7129 + 75 + 75 + 75 + 75 + 75 + 75 + 75 + 75 + 75 = 7879$

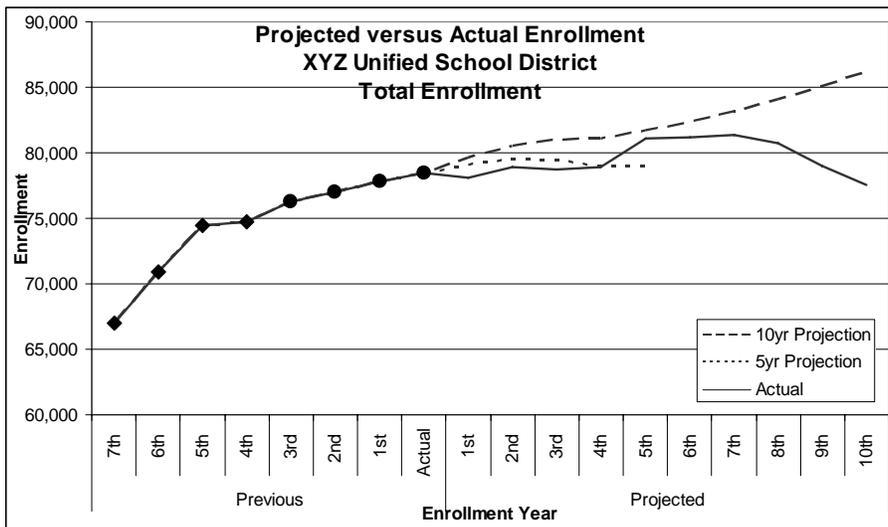
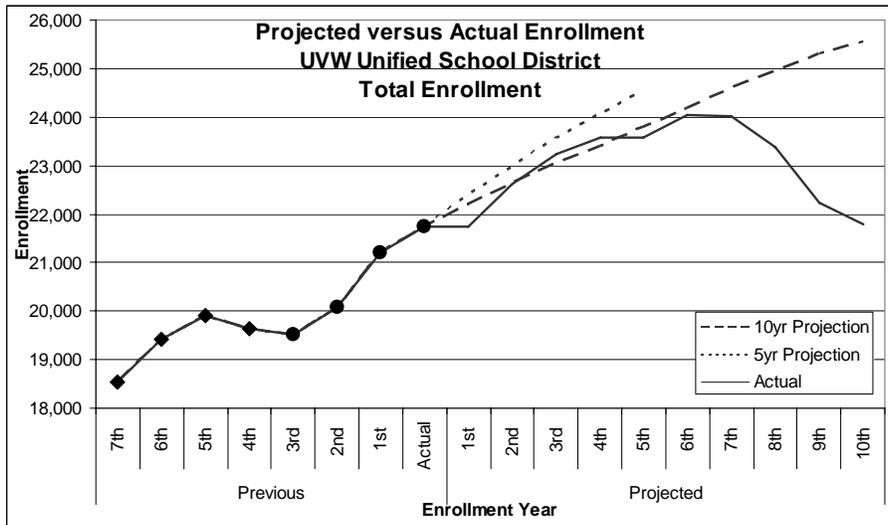
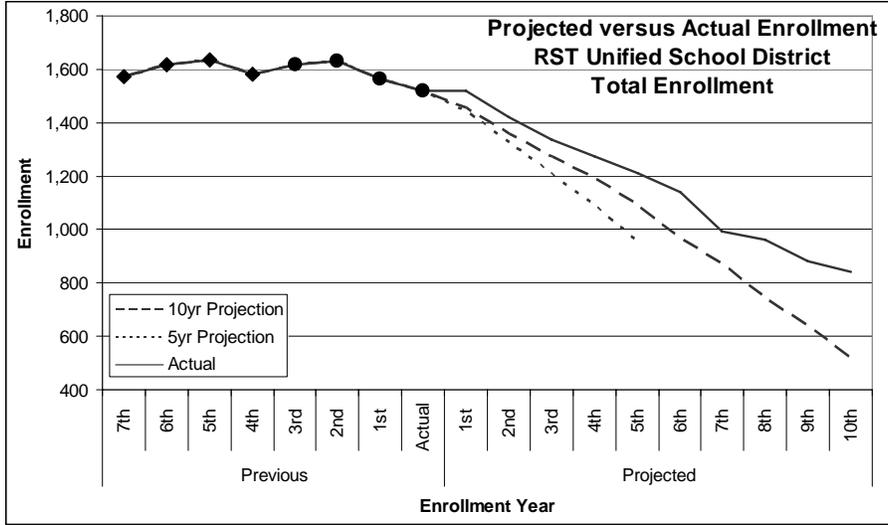
### 10-Year Enrollment Projection

Year	Actual Enrollment								Average Change (Div. By 28)	Projected Enrollment									
	1	2	3	4	5	6	7	8		1-year projection	2-year projection	3-year projection	4-year projection	5-year projection	6-year projection	7-year projection	8-year projection	9-year projection	10-year projection
K	6365	6708	6705	6830	6932	7051	7204	7129	75	7204	7279	7354	7429	7504	7579	7654	7729	7804	7879
1	6541	6754	7035	6972	6973	7104	7069	7118	100	7229	7304	7379	7454	7529	7604	7679	7754	7829	7904
2	6698	6593	6711	6879	6867	6878	6769	6823	-183	6935	7046	7121	7196	7271	7346	7421	7496	7571	7646
3	6375	6757	6611	6671	6697	6744	6656	6559	-149	6674	6786	6897	6972	7047	7122	7197	7272	7347	7422
4	5815	6513	6808	6551	6528	6578	6515	6425	-146	6413	6528	6640	6751	6826	6901	6976	7051	7126	7201
5	5307	5830	6559	6647	6395	6378	6308	6296	-175	6250	6238	6353	6465	6576	6651	6726	6801	6876	6951
6	4912	5307	5831	6404	6468	6192	6172	6110	-174	6122	6076	6064	6179	6291	6402	6477	6552	6627	6702
7	4723	5030	5313	5403	6155	6118	5860	5885	-280	5830	5842	5796	5784	5899	6011	6122	6197	6272	6347
8	4466	4731	4883	4982	5376	5773	5813	5606	-247	5638	5583	5595	5549	5537	5652	5764	5875	5950	6025
9	5165	5497	5685	5544	5845	6069	6885	7109	985	6591	6623	6568	6580	6534	6522	6637	6749	6860	6935
10	4532	4773	5014	4937	4903	4942	5429	5863	-774	6335	5817	5849	5794	5806	5760	5748	5863	5975	6086
11	3339	3721	4091	3935	4026	3951	4092	4331	-950	4913	5385	4867	4899	4844	4856	4810	4798	4913	5025
12	2782	2743	3195	2967	3082	3213	3078	3187	-860	3471	4053	4525	4007	4039	3984	3996	3950	3938	4053
Total	67020	70952	74441	74722	76235	76991	77850	78441		79605	80560	81008	81059	81703	82390	83207	84087	85088	86176

ATTACHMENT A

11th Grade 10-Year Projection:  
 Take the current 1st grade enrollment & add the 2nd grade average change (since 1st grade enrollment becomes the 2nd grade enrollment on the following year, calculating on a diagonal).  
 Then add the 3rd grade average change, then the 4th and so forth for all 10 years:  
 $7118 + (-183) + (-149) + (-146) + (-175) + (-174) + (-280) + (-247) + 985 + (-774) + (-950) = 5025$

# ATTACHMENT B



# Reporting Pupils on the Form SAB 50-01

Pupil Type	Current Enrollment-Only Option		COS Residence Option		Proposed for Residence Option		Comments
	Exclude	Include	Exclude	Include	Exclude	Include	
Off-track and on-track students attending multi-track year round schools		X		X		X	
Students residing outside the district boundaries but attending school in the district (i.e. interdistrict transfers)		X	X		X		Statute does not appear to allow school districts using the residence reporting option to report pupils who do not reside in the district. Also, the school district in which these pupils reside may not report them on a Form SAB 50-01 for the enrollment or residency data options. It appears these pupils may not be counted by any district.
Students receiving Classroom-Based Instruction in Charter Schools located within the district boundaries and are enrolled in the same grade levels or type served by the district <u>and the Charter School appears on the district's CBEDS report</u>		X		X		X	
Students receiving Classroom-Based Instruction in Charter Schools located within the district boundaries and are enrolled in the same grade levels or type served by the district <u>but the Charter School does not appear on the district's CBEDS report</u>		X	X		X		Statute requires that any pupils reported by HSAA residence must appear on the school district's CBEDS report, therefore, these pupils may not be reported by school districts using the HSAA residence option. These pupils may be reported if a school district chooses to report by HSAA enrollment or on a districtwide basis .
Magnet school students		X		X		X	
Community school students		X		X		X	
Independent study students		X		X		X	
Students living in the district boundaries but attending other districts	X		X		X		Statute requires that any pupils reported by HSAA residence must appear on the school district's CBEDS report, therefore, these pupils may not be reported by school districts using the HSAA residence option.
Regional Occupation Program (ROP) students	X		X		X		
Preschool students	X		X		X		
Adult Education students	X		X		X		
Students receiving Classroom-Based Instruction in Charter Schools located within the district boundaries but are enrolled in grade levels or type not served by the district.	X		X		X		
Students living inside district boundaries but are receiving Classroom-Based Instruction in Charter Schools located outside the district boundaries	X		X		X		
Students receiving Nonclassroom-Based Instruction	X		X		X		
Juvenile court/court school students	X		X		X		
Special Day Class students		X	X			X	
Continuation High School pupils		X	X			X	

ATTACHMENT C

# DISTRICTWIDE ENROLLMENT BY PUPIL RESIDENCE

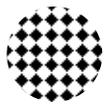
HSAA 1									HSAA 2							
	7th Prev	6th Prev	5th Prev	4th Prev	3rd Prev	2nd Prev	Prev.	Current	7th Prev	6th Prev	5th Prev	4th Prev	3rd Prev	2nd Prev	Prev.	Current
K																
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
11																
12																
Elem. SDC																
Sec. SDC																
<b>TOTALS:</b>																

HSAA 3									TOTAL							
	7th Prev	6th Prev	5th Prev	4th Prev	3rd Prev	2nd Prev	Prev.	Current	7th Prev	6th Prev	5th Prev	4th Prev	3rd Prev	2nd Prev	Prev.	Current
K																
1																
2																
3																
4																
5																
6																
7																
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12																
Elem. SDC																
Sec. SDC																
<b>TOTALS:</b>																

ATTACHMENT D

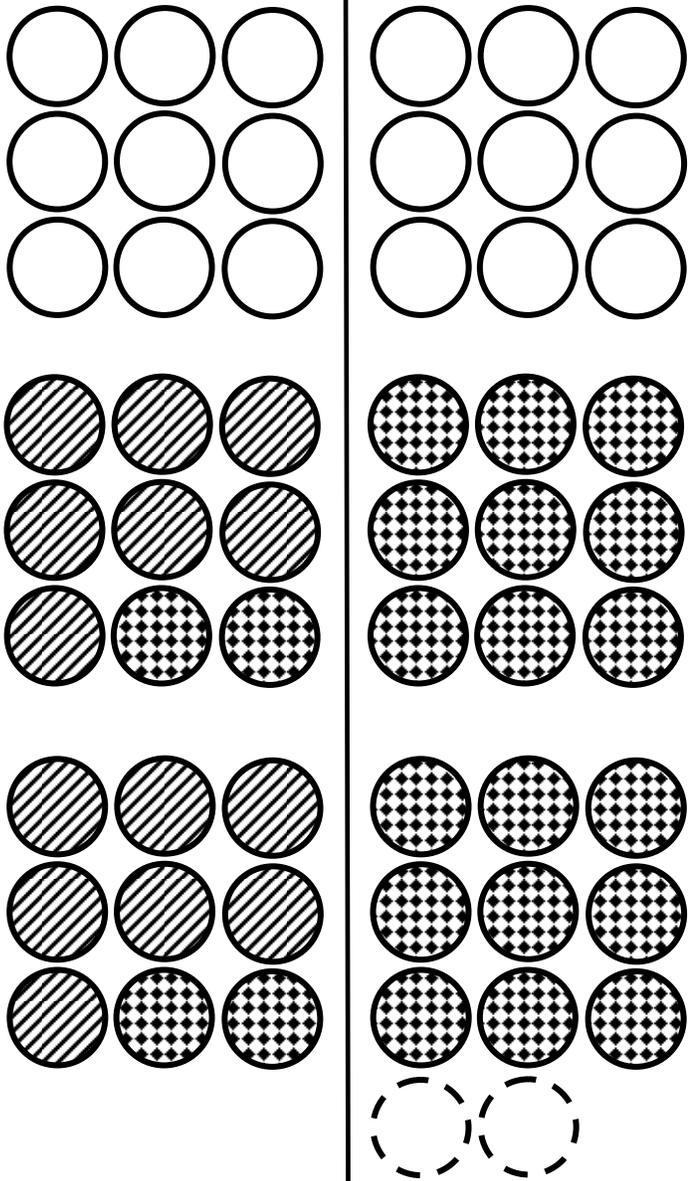
# ATTACHMENT E

## Key

Classroom housing students		Students residing in HSAA 1	
Classroom funded but not yet housing students		Students residing in HSAA 2	

### HSAA 1

### HSAA 2

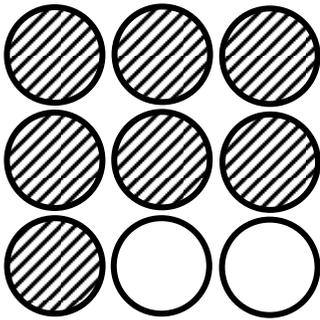


The district establishes new construction eligibility with 9 classrooms each in two HSAA's using enrollment option. All classrooms occupied and so both have eligibility of zero.

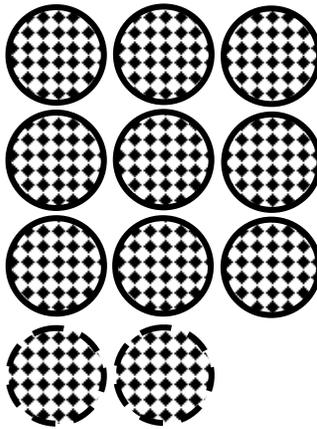
Once the district switches to residency option, it can be seen that HSAA 1 is housing 2 classrooms of students that live in HSAA 2. HSAA 2 now has positive eligibility, i.e. unhoused pupils, while HSAA 1 shows negative eligibility.

This allows a district to submit an application for two additional classrooms in HSAA 2 to house pupils in the area where they live.

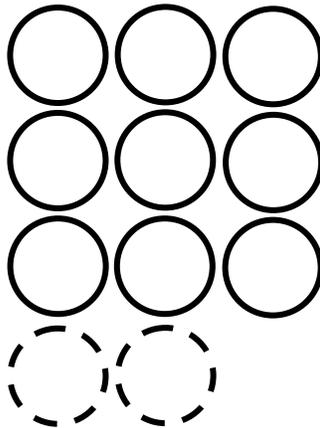
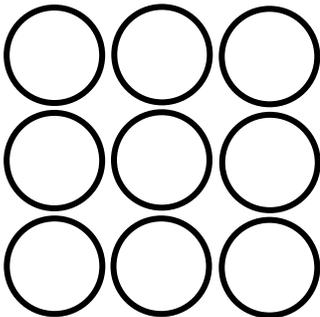
HSAA 1



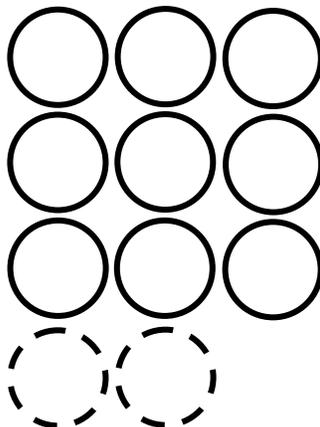
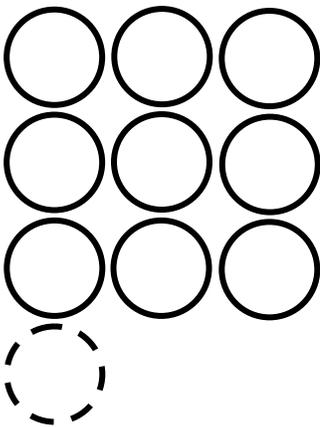
HSAA 2



Once the District has submitted an application for the construction of two classrooms in HSAA 2, the district will once again show no need for additional classrooms in HSAA 2.



If a district were to switch back to HSAA enrollment option the following year, they would now show no need in HSAA 1 and two extra classrooms in HSAA 2. This by itself does not pose any concerns.



If HSAA 1, using residency data, were to project a need for additional classroom, the eligibility would remain negative as those students would be able to occupy the classrooms vacated through the construction in HSAA 2. However, if a district were to have switched back to enrollment reporting prior to the two classrooms in HSAA 2 being occupied, HSAA 1 would now show a need for one additional classroom. This switch would provide a funding opportunity for the construction of one classroom that is not needed.

STATE ALLOCATION BOARD  
IMPLEMENTATION COMMITTEE  
APRIL 4, 2008

FINANCIAL HARDSHIP CHECKLIST

PURPOSE

To discuss the policy implications of the Financial Hardship Checklist published on the Office of Public School Construction (OPSC) website January 7, 2008 and updated February 25, 2008.

BACKGROUND

The Department of General Services commissioned an independent study of the State School Facility Financial Hardship Program in June 2007. The Macias Consulting Group (Macias) conducted the study and completed the report in August 2007. Macias presented the report to the State Allocation Board (SAB) at the September 2007 board meeting. Subsequently, OPSC prepared a Financial Hardship Work Plan to incorporate some of the Macias study findings and presented the plan at the October 2007 SAB meeting.

The Macias report recommended the establishment of a Financial Hardship Program Advisory Group (Advisory Group) comprised of representatives from OPSC, the Legislative Analyst's Office (LAO) and the Office of Statewide Audits and Evaluations (OSAE) to review current Financial Hardship Program policy, regulations and law and to make recommendations to the SAB for program improvement. The SAB chose to expand the Advisory Group to include representation from the Department of Education Fiscal Services Division, the Fiscal Crisis Management Assistance Team and the Assistant Executive Officer to the SAB.

The SAB expressed a keen interest in assuring that both the Advisory Group and the SAB Implementation Committee (Committee) vet all new Financial Hardship Program policies and regulations. In addition, the SAB requested that the Advisory Group forward discussion items to the Committee as concepts are developed, and prior to the Advisory Group's final determinations.

AUTHORITY

Please see attached Financial Hardship regulations and Education Code provisions (Attachment A).

DISCUSSION

On January 7, 2008, OPSC updated the Financial Hardship Checklist and placed it on the OPSC website. OPSC requires any school district submitting a Financial Hardship Application to utilize the new checklist. Attached are copies of the old checklist (Attachment B) and the current checklist (Attachment C) for the purposes of comparison. Based upon this comparison, the Committee may discuss the changes contained within the checklist. Further, the Committee may consider whether the changes in the checklist affect Financial Hardship Program policy or are merely ministerial.

The Committee may also wish to review the Financial Hardship Work Plan (Attachment D), accepted by the SAB in October 2007, to determine all areas of potential policy change and to plan future committee meeting discussion topics. In addition, the Committee may wish to provide these topics to the Advisory Group to ensure the group's awareness of future discussion needs.

### RECOMMENDATIONS

1. Forward to the SAB and the Financial Hardship Advisory Group any concerns and/or recommendations discussed by the Committee regarding the policy implications of the Financial Hardship Checklist.
2. Forward to the Financial Hardship Advisory Group an outline of topics the Committee wishes to be discussed at future Advisory Group and Implementation Committee meetings.

## CALIFORNIA EDUCATION CODE

§ 17075.10(b). A school district applying for hardship state funding under this article shall comply with either paragraph (1) or (2).

(1) Demonstrate both of the following:

(A) That due to extreme financial, disaster-related, or other hardship the school district has unmet need for pupil housing.

(B) That the school district is not financially capable of providing the matching funds otherwise required for state participation, that the district has made all reasonable efforts to impose all levels of local debt capacity and development fees, and that the school district is, therefore, unable to participate in the program pursuant to this chapter except as set forth in this article.

(2) Demonstrate that due to unusual circumstances that are beyond the control of the district, excessive costs need to be incurred in the construction of school facilities. Funds for the purpose of seismic mitigation work or facility replacement pursuant to this section shall be allocated by the board on a 50 percent state share basis from any funds reserved for that purpose in any bond approved by the voters after January 1, 2006. If the board determines that the seismic mitigation work of a school building would require funding that is greater than 50 percent of the funds required to construct a new facility, the school district shall be eligible for funding to construct a new facility under this chapter.

§ 17075.15. (a) From funds available from any bond act for the purpose of funding facilities for school districts with a financial hardship, the board may provide other construction, modernization, or relocation assistance as set forth in this chapter or Chapter 14 (commencing with Section 17085) to the extent that severe circumstances may require, and may adjust or defer the local financial participation, as pupil health and safety considerations require to the extent that bond act funds are provided for this purpose.

(b) The board shall adopt regulations for determining the amount of funding that may be provided to a district, and the eligibility and prioritization of funding, under this article.

(c) The regulations shall define the amount, and sources, of financing that the school district could reasonably provide for school facilities as follows:

(1) Unencumbered funds available in all facility accounts in the school district including, but not limited to, fees on development, redevelopment funds, sale proceeds from surplus property, funds generated by certificates of participation for facility purposes, bond funds, federal grants, and other funds available for school facilities, as the board may determine.

(2) The board may exclude from consideration all funds encumbered for a specific capital outlay purpose, a reasonable amount for interim housing, and other funds that the board may find are not reasonably available for the project.

(d) Further, the regulations shall also specify a method for determining required levels of local effort to obtain matching funds. The regulations shall include consideration of at least all of the following factors:

- (1) Whether the school district has passed a bond measure within the two-year period immediately preceding the application for funding under this article, the proceeds of which are substantially available for use in the project to be funded under this chapter, but remains unable to provide the necessary matching share requirement.
- (2) Whether the principal amount of the current outstanding bonded indebtedness issued for the purpose of constructing school facilities for the school district and secured by property within the school district or by revenues of, or available to, the school district, which shall include general obligation bonds, Mello-Roos bonds, school facility improvement district bonds, certificates of participation, and other debt instruments issued for the purpose of constructing school facilities for the school district and for which owners of property within the school district or the school district are paying debt service is at least 60 percent of the school district's total bonding capacity, as determined by the board.
- (3) Whether the total bonding capacity, as defined in Section 15102 or 15106, as applicable, is five million dollars (\$5,000,000) or less, in which case, the school district shall be deemed eligible for financial hardship.
- (4) Whether the application for funding under this article is from a county superintendent of schools.
- (5) Whether the school district submits other evidence of substantial local effort acceptable to the board.
- (6) The value of any unused local general obligation debt capacity, and developer fees added to the needs analysis to reflect the district's financial hardship, available for the purposes of school facilities financing.

## **FINANCIAL HARDSHIP REGULATIONS**

### **§ 1859.80. General.**

A district shall qualify for hardship assistance by demonstrating one or more of the following:

- (a) A financial hardship, as provided in Section 1859.81, which prevents the district from funding all or a portion of the matching share requirement for a SFP grant....

### **§ 1859.81. Financial Hardship.**

Except for Joint-Use Projects and Career Technical Educational Facilities Projects, a district is eligible for financial hardship to fund all or a portion of its matching share requirement after demonstrating the requirements of (a), (c), and (d) below:

(a) The district is financially unable to provide all necessary matching funds for an eligible project. To determine this, an analysis shall be made of the district's financial records by the OPSC including data and records maintained by the CDE and the County Office of Education. The analysis shall consist of a review of the district's latest Independent Audit regarding funds available from all capital facility accounts, including, but not limited to, developer fees, funds generated from capital facility certificates of participation, federal grants, redevelopment funds, sale proceeds from surplus property, the appraised value of facilities approved for replacement pursuant to Section 1859.82, bond funds either encumbered, unencumbered or authorized but unsold, and savings from other SFP projects. All funds thus identified that have not been expended or encumbered by a contractual agreement for a specific capital outlay purpose prior to the initial request for financial hardship status shall be deemed available as a matching contribution.

After the initial request for financial hardship status is granted, no further encumbrances will be approved by the OPSC and all prospective revenue made available to the district's capital facility accounts shall be deemed available as matching contribution on the subsequent financial hardship review, with the exception of:

- (1) Approved interim housing expenditures.
- (2) Funding to pay for previously recognized multi-year encumbrances approved at the initial financial hardship approval.
- (3) Funding that is transferred into a Special Reserve Fund and is used for the express purpose of the Federal Renovation Program when the amount expended out of that fund does not exceed the maximum Federal Renovation Grant amount.
- (4) Funding that is transferred into a Special Reserve Fund and is used for the express purpose of the School Facilities Needs Assessment Grant Program or Emergency Repair Program when the amount expended out of that fund does not exceed the maximum grant amount apportioned.
- (5) Funding that is transferred into a Special Reserve Fund and is used for the express purpose of the Career Technical Education Facilities Program when the amount expended out of that fund does not exceed the applicant's share of the maximum grant amount apportioned.
- (6) Funding that is transferred into a Special Reserve Fund and used for the express purpose of the Overcrowding Relief Grant when the amount expended out of that fund does not exceed the amount of the site acquisition and design costs of the project and the district has submitted an approved Form SAB 50- 11.
- (7) Funding that is used for the express purpose of reimbursing the State a proportionate share of financial hardship received when there has been a transfer of a special education program and title to the facility. In addition, the funding was used within five years of the title transfer.
- (8) All other capital facility funding for a period of three years when no subsequent financial hardship request is made during this period, with the exception of the funding identified in (6). The three-year period begins with the date of the most recent financial hardship new construction or modernization adjusted grant funding apportionment.

**SCHOOL FACILITY PROGRAM**  
**County Office of Education**  
**Financial Hardship Checklist and Certification**

(April 2008) Draft

New  Renewal

COUNTY OFFICE OF EDUCATION
COUNTY
DATE OF FINANCIAL HARDSHIP REQUEST

**Attention:** In order to streamline the process of completing a Financial Hardship package, it is the County Office of Education's (COE) responsibility to clearly report all sources of funding and pertinent information as part of their Financial Hardship submittal package. All incomplete Financial Hardship packages will be returned. This Financial Hardship checklist and funding certification must be submitted in its original form and without any modifications or the COE's Financial Hardship package will be marked incomplete and returned to the COE.

In addition, the OPSC strongly encourages COE's to provide supporting schedules and all necessary documents to accommodate shorter review periods.

**I. QUALIFYING CRITERIA [Per Education Code Sections 17075.15(d)(4) & Regulation Section 1859.81(c)(3)]**

COE must meet Section A1 below in order to qualify for Financial Hardship.

**Section A**

1. Is the applicant a County Superintendent of Schools?  Yes  No

*If yes, go to II. Funding Certifications  
 If no, applicant cannot qualify as COE*

**II. FUNDING CERTIFICATIONS (Per Education Code Section 17075.15(c) & Regulation Section 1859.81(a))**

NOTE: All fund sources that could be used for capital facility purposes need to be included in the Financial Hardship package, regardless of what fund the proceeds are deposited into.

- A. Has the COE issued any Certificates of Participation (COP) in the last three years?  Yes  No

If yes:

- Please indicate the date(s) issued and the dollar amount(s): \_\_\_\_\_
- Please indicate what Fund the proceeds were deposited into: \_\_\_\_\_
- Please provide a trial balance and/or General Ledger detail evidencing the proceeds were deposited in that fund.
- Please provide a copy of the COP booklet(s) as part of the COE's Financial Hardship package.

**Enclosed:**  
 Yes  No

*If no, the package will be returned.*

- B. Will any Certificates of Participation (COP) be issued within the next 12 months from the date of the Financial Hardship submittal?  Yes  No

If yes, please indicate the proposed date of issuance and the amount:

- C. Is the COE currently receiving Redevelopment Funds or have they received Redevelopment Funds within the last three years?  Yes  No

If yes,

- Please indicate the dollar amount(s):  

_____	_____	_____
Current Year	Prior Year	2nd Prior Year
- Please indicate what Fund the proceeds were deposited into: \_\_\_\_\_
- Please provide a trial balance or General Ledger detail evidencing the proceeds were deposited in that fund.
- Please provide a copy of the redevelopment agreement(s) currently in effect as part of the Financial Hardship request package.

**Enclosed:**  
 Yes  No

*If no, the package will be returned.*

**SCHOOL FACILITY PROGRAM**  
**County Office of Education**  
**Financial Hardship Checklist and Certification**

(April 2008) Draft

- D. Has the COE received any proceeds from sale of surplus real property within the last three years?  Yes  No  
 If yes, please indicate the dollar amount(s): \_\_\_\_\_  
 In addition, please indicate what Fund the proceeds were deposited into: \_\_\_\_\_  
 • Please provide a trial balance or General Ledger detail evidencing the proceeds were deposited in that fund.
- E. Has the COE received any other source of funding within the last three years not previously listed that could be used for capital facility purposes?  Yes  No  
 If yes:  
 • Please indicate the source of funding: \_\_\_\_\_  
 • Please indicate the dollar amount(s): \_\_\_\_\_  
 • Please indicate what Fund the proceeds were deposited into: \_\_\_\_\_  
 • Please provide a trial balance or General Ledger detail evidencing the proceeds were deposited in that fund.
- F. What Inter-Fund transfers has the COE made over the last two fiscal years?  
 • Please submit General Ledger detail which documents the transfers over the last two fiscal years. **Enclosed:**  Yes  No  
 • Please provide a schedule of all the Inter-Fund transfers that lists:  
 (1) the fund transferred from, (2) the fund transferred to, (3) describes the purpose of the transfer, **Enclosed:**  Yes  No  
 and (4) the date of the transfer.

**III. EVIDENCE REQUIRED**

- A. COE's Capital Outlay Plan for the next 5 years.  
 • If not available, please submit explanation why. **Enclosed:**  Yes  No **Previously Submitted**
- B. "Financial Hardship Project Worksheet" for each project and each phase of a project the COE is requesting Financial Hardship assistance for. **Enclosed:**  Yes  No
- C. "Financial Hardship Fund Worksheet" submitted for each fund within the Capital Project Funds and/or each Fund that contains capital facility related proceeds. These summarized fund worksheets reflect the COE's financial condition pursuant to data from the latest Independent Audit Report, along with subsequent transactions in column 2 of the worksheets to arrive at the current available funds. A separate worksheet must be submitted for each fund that contains capital facility related proceeds. **Enclosed:**  Yes  No
- D. **Trial Balance** for each financial hardship fund worksheet the COE is submitting. The trial balance should reflect the balances through the date of the fund worksheets. **Enclosed:**  Yes  No
- E. **General Ledger (GL) Detail Report** for the information in Column 1 and Column 2 of each Financial Hardship Fund Worksheet submitted. **Enclosed:**  Yes  No

*For example: The COE's Fund 25 worksheet has Column 1 information for the 2005/2006 Fiscal Year ending 6/30/06. The Column 2 information is dated as of 10/1/07, therefore it contains data from the 2006/2007 Fiscal Year ending 6/30/07 and 3 months of information (7/1/07 thru 10/1/07) from the 2007/2008 Fiscal Year. This would mean the COE would submit 3 General Ledger detail reports for Fund 25: (1) 7/1/05 thru 6/30/06, (2) 7/1/06 thru 6/30/07, and (3) 7/1/07 thru 10/1/07.*

NOTE: If the General Ledger detail report does not clearly delineate what project the reported expenditures were completed on then it will be necessary to submit a support schedule which lists all the expenditures, the work done, the project, and ties back to the individual General Ledger detail report(s).

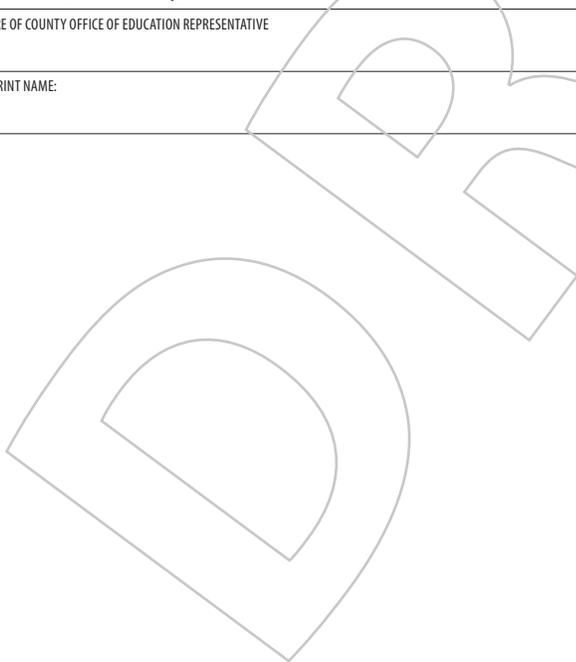
**SCHOOL FACILITY PROGRAM**  
**County Office of Education**  
**Financial Hardship Checklist and Certification**

(April 2008) Draft

- F. Identify the purpose and provide necessary documentation for any restrictions on funds within any Special Reserve Fund. Enclosed:  Yes  No  Submitted **Previously Submitted**
- G. Report all funds spent (to date) on SFP financial hardship project(s) requested on a detailed expenditure report. A separate expenditure report must be submitted for each Financial Hardship Project Worksheet. Enclosed:  Yes  No  
 If no funds have been spent on the project(s), submit a written statement to that effect.
- H. Documentation supporting any encumbrances the COE is claiming (i.e. contracts/payment schedules). Enclosed:  Yes  No  Submitted **Previously Submitted**  
 All material should be clearly cross referenced and identified to the contract and to the encumbrance(s).
- I. If the COE will be requesting an "Interim Housing" deduction against funds that would otherwise be considered available for future SFP Financial Hardship projects, they must submit the following: This allowance is only when the COE is applying for new construction projects.  Yes  N/A  
 (1) Current Enrollment Certification/Projection (Form SAB 50-01),  
 (2) Existing School Building Capacity (Form SAB 50-02),  
 (3) The COE's written estimation of the Interim Housing deduction needed for the coming year.  
 These documents are needed so OPSC can calculate the maximum "Interim Housing" deduction allowed.  
 NOTE: Small school districts have an option to not update their eligibility for a period of three years in case of declining enrollment. However, for financial hardship purposes, the Form SAB 50-01 must be completed based on the latest CBEDS information.
- J. Complete copy of last Two Independent Audit Reports. Enclosed:  Yes  No  Submitted **Previously Submitted**
- K. Listing of the COE's unused site(s) and intended purpose(s) or a statement that the COE has no unused site(s). Enclosed:  Yes  No  Submitted **Previously Submitted**  
 If no, is a current Unused Sites Certification already on file with OPSC?  Yes

I certify, as the County Office of Education Representative, that the information, and all supporting documentation, on this checklist is true, correct, and complete.

SIGNATURE OF COUNTY OFFICE OF EDUCATION REPRESENTATIVE	DATE
PLEASE PRINT NAME:	



# Financial Hardship Checklist and Certification

(April 2008)

New  Renewal

SCHOOL DISTRICT
COUNTY
DATE OF FINANCIAL HARDSHIP REQUEST

**Attention:** In order to streamline the process of completing a Financial Hardship package, it is the district's responsibility to clearly report all sources of funding and pertinent information as part of their Financial Hardship submittal package. All incomplete Financial Hardship packages will be returned. This Financial Hardship checklist and funding certification must be submitted in its original form and without any modifications or the district's Financial Hardship package will be marked incomplete and returned to the district.

In addition, the OPSC strongly encourages district's to provide supporting schedules and all necessary documents to accommodate shorter review periods.

## I. QUALIFYING CRITERIA [Per Education Code Sections 17075.15(d)(1-5) & Regulation Section 1859.81(c)(1-5)]

District must meet Section A and at least one of the items listed in Section B below in order to qualify for Financial Hardship.

### Section A

1. Is the district levying developer fees at the maximum rate justified under law?  Yes  No

As of the January 2008 SAB meeting, Level 1 rates were set by the SAB at \$2.97 per square foot for residential permits and \$0.47 per square foot for commercial/industrial permits.

2. Is the district renewing their Financial Hardship for a new construction project?  Yes  No

If yes, it must also show evidence of the appropriate level of developer fees assessed (i.e. Level I, Level II, or alternate fee determined by current needs analysis study). The district must have a current (dated within one year of the Financial Hardship request) Needs Analysis Study to justify its fees.

Has a copy of the Needs Analysis Study and the school board resolution implementing the fees been submitted?  Yes  No

*If no, district does not meet current financial hardship criteria.*

3. Is a copy of the school board resolution implementing the current fees attached?  Yes  No

4. If the district is sharing developer fees with other school district(s): has a copy of the agreement been submitted with the financial hardship package?  Yes  No

What percentage of fees does the district receive from the sharing agreement and what is the rate?

*If the district is levying the maximum developer fees as indicated in A1., go to Section B1.*

5. If the district is not levying the maximum developer fees, does the district have a current (dated within 2 years of the financial hardship request) developer fee justification study showing a lesser amount to be collected? Is the justification study included in the financial hardship submittal?  Yes  No

What is the lower rate that is being assessed?

*If the district is either levying the maximum developer fee authorized or justifies a lower fee, then go to Section B1.*

*If no, district does not meet current financial hardship criteria.*

### Section B

1. Is the district's current outstanding bonded or school facility related indebtedness at least 60% of the total bonding capacity of the district?  Yes  No

What is the district's percentage of indebtedness?

If qualifying under this criteria has a copy from County Audit-Controller certifying the district's current year assessed valuation been enclosed?  Yes  No

*If yes, go to Funding Certification section; if no, go to section B2*

# Financial Hardship Checklist and Certification

(April 2008)

- 2. Did the district have a successful registered voter bond election for at least the maximum amount allowed under Prop 39 within the previous two years from the date of request for financial hardship status?  Yes  No

The proceeds from the bond election (that represent the maximum amount allowed under the provisions of Prop 39) must be used to fund SFP project(s).

If qualifying under this criteria, has the following been submitted:

- A copy of ballot issue/voter bond pamphlet.  Yes  No
- Certification from Registrar of Voters.  Yes  No
- Documentation supporting date of election, amount of bond; purpose of bond; percent of "Yes" vote on bond.  Yes  No

*If yes, go to ii. Funding Certification; if no, go to Section B3*

- 3. Is the applicant a County Superintendent of Schools?  Yes  No

*If yes, go to ii. Funding Certification; if no, go to Section B4*

- 4. Is the district's total bonding capacity at the time of the request for Financial Hardship status \$5 million or less?  Yes  No

If qualifying under this criteria has a copy from County Audit-Controller certifying the district's current year assessed valuation been enclosed?  Yes  No

*If yes, go to ii. Funding Certification; if no, district does not qualify for financial hardship*

## II. FUNDING CERTIFICATIONS (Per Education Code Section 17075.15(c) & Regulation Section 1859.81(a))

NOTE: All fund sources that could be used for capital facility purposes need to be included in the Financial Hardship package, regardless of what fund the proceeds are deposited into.

- A. Has the district issued any Certificates of Participation (COP) in the last three years?  Yes  No

If yes:

- Please indicate the date(s) issued and the dollar amount(s): \_\_\_\_\_
- Please indicate what Fund the proceeds were deposited into: \_\_\_\_\_
- Please provide a trial balance and/or General Ledger detail evidencing the proceeds were deposited in that fund.
- Please provide a copy of the COP booklet(s) as part of the district's Financial Hardship package.

Enclosed:  
 Yes  No

*If no, the package will be returned.*

- B. Will any Certificates of Participation (COP) be issued within the next 12 months from the date of the Financial Hardship submittal?  Yes  No

If yes, please indicate the proposed date of issuance and the amount: \_\_\_\_\_

- C. Has the district passed any General Obligation Bonds ( 2/3, Proposition 39) or Mello Roos Bonds within the last three years?  Yes  No

If yes:

- Please indicate the date(s) passed and the dollar amount(s):  

_____	_____	_____
Current Year	Prior Year	2nd Prior Year
- Please indicate what Fund the proceeds were deposited into: \_\_\_\_\_
- Please provide a trial balance and/or General Ledger detail evidencing the proceeds were deposited in that fund.
- Please provide a copy of the bond book(s) and official copy of the ballot issue(s) as part of the Financial Hardship package.

Enclosed:  
 Yes  No

*If no, the package will be returned.*

# Financial Hardship Checklist and Certification

(April 2008)

D. Has the district entered into any developer fee "In Lieu" agreement(s) within the last three years that decreased the amount of developer fees collected by the district?  Yes  No

If yes:

• Please provide a copy of the mitigation(s) agreements and school board minutes approving the agreement been submitted as part of the Financial Hardship request package. **Enclosed:**  Yes  No

• If the district received any benefit, building, land, etc., in lieu of Developer Fees, has documentation been submitted verifying the "in lieu" received and the value of developer fees that were negated due to the "in lieu" agreements?  Yes  No

This documentation should include the General Ledger detail to reflect the asset value and date posted.

*If no, the package will be returned.*

E. Is the district currently receiving Redevelopment Funds or have they received Redevelopment Funds within the last three years?  Yes  No

If yes,

• Please indicate the dollar amount(s): \_\_\_\_\_

• Please indicate what Fund the proceeds were deposited into: \_\_\_\_\_

• Please provide a trial balance or General Ledger detail evidencing the proceeds were deposited in that fund.

• Please provide a copy of the redevelopment agreement(s) currently in effect as part of the Financial Hardship request package. **Enclosed:**  Yes  No

*If no, the package will be returned.*

F. Has the district received any proceeds from sale of surplus real property within the last three years?  Yes  No

If yes, please indicate the dollar amount(s): \_\_\_\_\_

In addition, please indicate what Fund the proceeds were deposited into: \_\_\_\_\_

• Please provide a trial balance or General Ledger detail evidencing the proceeds were deposited in that fund.

G. Has the district received any other source of funding within the last three years not previously listed that could be used for capital facility purposes?  Yes  No

If yes:

• Please indicate the source of funding: \_\_\_\_\_

• Please indicate the dollar amount(s): \_\_\_\_\_

• Please indicate what Fund the proceeds were deposited into: \_\_\_\_\_

• Please provide a trial balance or General Ledger detail evidencing the proceeds were deposited in that fund.

H. What Inter-Fund transfers has the district made over the last two fiscal years?

• Please submit General Ledger detail which documents the transfers over the last two fiscal years. **Enclosed:**  Yes  No

• Please provide a schedule of all the Inter-Fund transfers that lists:  
(1) the fund transferred from, (2) the fund transferred to, (3) describes the purpose of the transfer, and (4) the date of the transfer. **Enclosed:**  Yes  No

## III. EVIDENCE REQUIRED

A. Summary of why the district is requesting financial hardship. This can be a short paragraph summarizing how the district meets the financial hardship criteria.  Yes  No

B. District's Capital Outlay Plan for the next 5 years.  Yes  No **Previously Submitted**

• If not available, please submit explanation why.

C. "Financial Hardship Project Worksheet" for each project and each phase of a project the district is requesting Financial Hardship assistance for.  Yes  No

# Financial Hardship Checklist and Certification

(April 2008)

- D. "Financial Hardship Fund Worksheet" submitted for each fund within the Capital Project Funds and/or each Fund that contains capital facility related proceeds. These summarized fund worksheets reflect the district's financial condition pursuant to data from the latest Independent Audit Report, along with subsequent transactions in column 2 of the worksheets to arrive at the current available funds. A separate worksheet must be submitted for each fund that contains capital facility related proceeds.  Yes  No
- E. Trial Balance for each financial hardship fund worksheet the district is submitting. The trial balance should reflect the balances through the date of the fund worksheets.  Yes  No
- F. General Ledger (GL) Detail Report for the information in Column 1 and Column 2 of each Financial Hardship Fund Worksheet submitted.  Yes  No

*For example: The district's Fund 25 worksheet has Column 1 information for the 2005/2006 Fiscal Year ending 6/30/06. The Column 2 information is dated as of 10/1/07, therefore it contains data from the 2006/2007 Fiscal Year ending 6/30/07 and 3 months of information (7/1/07 thru 10/1/07) from the 2007/2008 Fiscal Year. This would mean the district would submit 3 General Ledger detail reports for Fund 25: (1) 7/1/05 thru 6/30/06, (2) 7/1/06 thru 6/30/07, and (3) 7/1/07 thru 10/1/07.*

NOTE: If the General Ledger detail report does not clearly delineate what project the reported expenditures were completed on then it will be necessary to submit a support schedule which lists all the expenditures, the work done, the project, and ties back to the individual General Ledger detail report(s).

- G. Identify the purpose and provide necessary documentation for any restrictions on funds within any Special Reserve Fund.  Yes  No  Previously Submitted
- H. Report all funds spent (to date) on SFP financial hardship project(s) requested on a detailed expenditure report. A separate expenditure report must be submitted for each Financial Hardship Project Worksheet. If no funds have been spent on the project(s), submit a written statement to that effect.  Yes  No
- I. Documentation supporting any encumbrances the district is claiming (i.e. contracts/payment schedules). All material should be clearly cross referenced and identified to the contract and to the encumbrance(s).  Yes  No  Previously Submitted
- J. If the district will be requesting an "Interim Housing" deduction against funds that would otherwise be considered available for future SFP Financial Hardship projects, they must submit the following: This allowance is only when the district is applying for new construction projects.  Yes  N/A
  - (1) Current Enrollment Certification/Projection (Form SAB 50-01),
  - (2) Existing School Building Capacity(Form SAB 50-02),
  - (3) The district's written estimation of the Interim Housing deduction needed for the coming year.

These documents are needed so OPSC can calculate the maximum "Interim Housing" deduction allowed.

NOTE: Small school districts have an option to not update their eligibility for a period of three years in case of declining enrollment. However, for financial hardship purposes, the Form SAB 50-01 must be completed based on the latest CBEDS information.

- K. Complete copy of last Two Independent Audit Reports.  Yes  No  Previously Submitted
- L. Listing of the district's unused site(s) and intended purpose(s) or a statement that the district has no unused site.  Yes  No  Previously Submitted  
Is current Unused Site Certification already on file with OPSC?  Yes

I certify, as the District Representative, that the information, and all supporting documentation, on this form is true, correct, and complete.

SIGNATURE OF DISTRICT REPRESENTATIVE	DATE
PLEASE PRINT NAME:	

REPORT OF THE EXECUTIVE OFFICER  
State Allocation Board Meeting, October 24, 2007

OFFICE OF PUBLIC SCHOOL CONSTRUCTION WORK PLAN FOR  
IMPROVING THE FINANCIAL HARDSHIP PROGRAM

PURPOSE OF REPORT

To present an implementation plan that addresses the Macias Consulting Group's (MCG) findings on the Financial Hardship (FH) Program.

DESCRIPTION

The Office of Public School Construction (OPSC) hired MCG to conduct a performance audit of the FH Program and provide recommendations to improve administration of the program. The State Allocation Board received the Consultant's findings and recommendations at its September 2007 meeting. The attached work plan will implement those recommendations.

RECOMMENDATION

Accept the report.

BOARD ACTION

In considering this item, the State Allocation Board on October 24, 2007 accepted the report with the following to be added to the Advisory Panel:

- FICMAT
- Assistant Executive Officer
- Fiscal Services Staff with the California Department of Education

# OPSC

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## Work Plan for Improving the Financial Hardship Program

**Contributors:**

Rob Cook: Executive Officer

Lori Morgan: Deputy Executive Officer

Dave Zian: Chief, Fiscal Services

Lisa Silverman: Operations Manager, Fiscal Services

Jason Hernandez: Audit Supervisor, Fiscal Services

## Executive Summary

The Office of Public School Construction (OPSC) contracted with the Macias Consulting Group (MCG) to conduct a performance audit of the Financial Hardship (FH) Program. The Macias consultants provided a number of recommendations to improve the program:

1. Revamp the FH framework.
2. Establish training for applicants.
3. Develop and implement program policies.
4. Revamp worksheets and instructions.
5. Establish information system safeguards.
6. Implement process improvements and training.

The OPSC will execute this work plan to implement these recommendations. Adoption of several recommendations is complete or underway, but the full complement of recommendations will take several months and approximately \$97,000 in one-time costs and \$44,000 in on-going costs to implement. These changes will streamline and simplify the FH review process for OPSC customers, improve the integrity of the program, and ensure an equitable distribution of hardship funding to qualifying school districts.

## Recommendation #1: Revamp FH Framework

### Recommendations:

Establish an advisory panel comprised of Legislative Analyst Office (LAO) and Office of Statewide Audits and Evaluations (OSAE) representatives to prepare the framework for the revised model. Once established, the advisory panel will need to address the following issues:

- a. Propose revised FH Program regulations to review the overall fiscal health of the applicant.
- b. Establish key fiscal health ratios to be submitted by the applicant that show revenue availability, debt levels, liability levels, and operating margins. The financial ratios should be based on the most recent audited financial statements and a current trial balance report.
- c. Develop an index of State and application contribution levels based on the fiscal health assessment of the applicant.
- d. Approve OPSC revamped FH Program instructions that provide guidance to the applicants on the FH certification program and funding allocation process.
- e. Establish performance requirements for the review of FH certification applications upon submission of complete applications (e.g., 30 or 60 days).
- f. Determine whether applicants should submit FH certifications for each project effectively eliminating the six-month effective period of the certification.

Work Plan for Improving the Financial Hardship Program

g. Seek an independent firm or expert to determine whether vulnerabilities exist within the revised model.

Actions Needed for Recommendation #1:

Assemble Advisory Panel	Completed
Revamp FH model	Underway
Beta test revised model	November 2007
Discuss the revised model at the Implementation Committee	December 2007
Follow-up discussion at the Implementation Committee	January 2008
Independent evaluation of model	February 2008
Revised regulations to State Allocation Board	March 2008

Recommendation #2: Establish Training for Applicants

Recommendation:

Establish a formal FH training program for prospective applicants to be administered once a year. This training program should include information pertaining to the application receipt, processing, and decision-making criteria used by OPSC reviewers.

Actions Needed for Recommendation #2:

Establish Training for Applicants	June 2008
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Recommendation #3: Develop and Implement Program Policies

Recommendations:

Develop policies and procedures that trigger OPSC mid-level and/or executive management resolution of issues raised by an applicant or by the OPSC reviewer's analysis of the FH application. These triggers could include the identification of excessive fund transfers to the applicant's General Fund, restrictions found on certificates of participation, a school district's utilization of legal services, and issues that require interpretation or application of regulations.

Add a component to the FH Review Process to require OPSC reviewers to visit school districts when circumstances are warranted. These circumstances can include unclear financial information, discrepancies found in the financial data, or the absence of supporting documentation on the FH application.

Require mid-level managers to provide bi-monthly performance monitoring key performance metrics, such as the timeliness of the review process, adherence to internal controls and review outcomes of the FH review process (e.g., percent of withdrawals, denials, and approval rates).

Establish an advisory panel comprised of LAO, OSAE representatives, OPSC mid-and executive-level management, and an independent auditor that meets monthly to validate the results of the FH certification review and provide approval of eligibility and funding contributions.

Work Plan for Improving the Financial Hardship Program

Actions Needed for Recommendation #3:

Establish program policies to elevate issues	Adopted Sept. 2007
Establish policy for on-site reviews	Adopted Sept. 2007
Establish bi-monthly performance monitoring	Adopted Sept. 2007
Advisory panel to review revised program and approve FH applications	Upon adoption of regulations

Recommendation #4: Revamp the Application and Worksheets

Recommendations:

Revamp the FH Checklist to reflect the revised review model, including updating instructions for each FH worksheet required.

Actions Needed for Recommendation #4:

Revamp the current program FH checklist	Adopted Oct. 2007
Revamp the current program FH worksheets	December 2007
Update the revised program FH checklist/worksheets	Available upon adoption of regulations

Recommendation #5: Establish Information System Safeguards

Recommendations:

Restrict access to information systems so that upon completion of the review of an application, the record cannot be overwritten with information from another application.

Implement information system-edit checks to require OPSC reviewers to enter required database information.

Add system tables to perform and validate contribution calculations for the application and final expenditure report submitted by the school district at the completion of the construction project.

Actions Needed for Recommendation #5:

Establish information system safeguards for current program	January 2008
Create new information program system for revised program	Available upon adoption of regulations

Recommendation #6: Process Improvements/Training

Recommendations:

The FH files were put together in a manner that did not provide a full audit trail of data used in completing the FH funding analysis. The FH review packages lacked cross-referencing, an index for the working papers, and there were no trail documenting when issues (e.g., high-level or policy issues) were elevated to management for recommendations.

## Work Plan for Improving the Financial Hardship Program

At the time of the external management review, there were no staff members on the FH review team with outside audit experience. Staff with prior experience in accounting or financial auditing would better understand the concepts of analyzing financial data and what constitutes a complete audit. Additionally, the OPSC does not have a formal training process for new and current staff members.

### Actions Needed for Recommendation #6:

Standardize format for FH review files

Adopted Aug. 2007

Transition of staff members with prior audit/accounting experience

Adopted Sept. 2007

Training in accounting and financial reviews

Commencing

November 2007

### Resources Needed:

- Contract with an outside consulting firm to review FH Program changes.

Estimated one-time cost to assess the risk of the new program: \$25,000

Estimated one-time cost to develop training for OPSC reviewers: \$8,000

- Engage an outside audit firm to perform monthly reviews with the FH Committee.

Estimated annual cost: \$24,000

- Multi-level training program for in-house staff.

One-time cost to upgrade skill set of staff for FY 07/08: \$17,000

One-time cost to upgrade skill set of staff for FY 08/09: \$38,000

Estimated annual cost for on-going training: \$20,000

- Authorize overtime over the next two months to address the FH review workload.

One-time cost: \$9,000

- Redirect and rotate School Facility Program auditors onto the FH review team.

Estimated cost: Non-substantial

### Total Costs:

- Total estimated implementation cost for these program improvements is \$141,000. This includes \$97,000 in one-time costs and \$44,000 in annual costs.