

REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, January 28, 2009

SCHOOL FACILITY PROGRAM UNFUNDED APPROVALS

PURPOSE OF REPORT

To discuss making unfunded project approvals.

SUMMARY

In the past when the State Allocation Board (SAB) exhausted its bond authority, it established unfunded approval lists. Although receiving an unfunded approval did not constitute a guarantee of funding, the list established the need for State funding for school construction and modernization. Additionally, when projects received unfunded approvals, bond negotiations were in process - providing a level of confidence to school districts that State funds would be available subject to voter approval. In these times, the State's financial house was in order, the bond market was healthy and accommodating, and the Board did not have outstanding apportionments that it could not fund. None of those conditions exist today.

Currently, the State is experiencing a financial crisis that is unprecedented and unlikely a short-term problem. In this uncertainty, the SAB may need to preserve some flexibility to address the changing and fluid financial environment.

BACKGROUND

The State of California is currently in a fiscal crisis with a two-year projected deficit exceeding \$40 billion. Simultaneously, the worldwide financial markets are in turmoil. As a result of these two circumstances, the State Treasurer has announced that the bond market is closed to the State of California and that the State cannot sell any bonds.

On December 17, 2008, the Pooled Money Investment Board (PMIB) took action to halt disbursing cash from the State's Pooled Money Investment Account (PMIA) for capital projects, including the construction of public schools. This action was taken to preserve cash for State obligations.

On December 18, 2008, the Department of Finance issued Budget Letter #33 (Attachment A) to provide direction to State agencies as a result of the PMIB action. This letter, in part, states:

"Effective immediately, all state entities that have expenditure control and oversight of General Obligation and lease revenue bond programs shall cease authorizing any new grants or obligations for bond projects, including new phases for existing projects."

DESCRIPTION

The Office of Public School Construction (OPSC) uses loans from the PMIA to release funds for SAB approved projects. These loans from the PMIA are repaid when the State sells bonds. Under Budget Letter #33 noted above, the OPSC is unable to release funds for approved school construction projects until further notice.

Historically, the SAB has made unfunded approvals for projects when bond funds have been exhausted. The approvals occurred as recently as 2006 for modernization projects and in 2002 for new construction and modernization projects. A project that met the criteria for funding was placed on an unfunded list. In addition to these more recent unfunded actions, the SAB approved zero dollar apportionments for eligible projects under the Lease-Purchase Program when bond funds were exhausted. The zero dollar apportionments constituted a full approval and provided a level of confidence to local school boards contemplating interim financing of projects.

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STAFF COMMENTS

Establishing an unfunded list at this current time may be risky for school districts as they may incur debt without a realistic timeline to be reimbursed. However, the creation of an unfunded list communicates to school districts that their projects meet all program requirements and that the projects are eligible for funding when funds become available. Further, it provides flexibility to school districts to enable them to obtain alternative financing should they choose to pursue their projects without State funding.

AUTHORITY

School Facility Program (SFP) Regulation Section 1859.95 cites: "The Board will also accept and process applications for apportionment for purposes of developing an Unfunded List based on the date the application is ready for Apportionment, with the exception of New Construction funding applications that utilize eligibility generated by the Alternative Enrollment Projection.

Applications for New Construction Adjusted Grants for a project where the site was apportioned pursuant to Section 1859.75.1 shall receive a date on the Unfunded List based on the date the environmental hardship site apportionment was made for the project.

With the exception of financial hardship eligibility, a district with an application included on an Unfunded List shall not be required to re-establish eligibility for that application prior to apportionment.

An application for funding included on an Unfunded List is eligible for reimbursement subject to adjustments in the New Construction Grants amount pursuant to Section 1859.77."

SFP Regulation Section 1859.2 states: "Ready for Apportionment means a final review of an Approved Application has been completed by the OPSC and it has been determined that it meets all requirements of law for an apportionment or eligibility determination, and the OPSC will recommend approval to the Board."

RECOMMENDATION

Accept this report.