REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, May 29, 1996

PROPOSITION 203 FINANCING REPORT

PURPOSE OF REPORT

To discuss disbursement of funds and areas of concern related to Proposition 203.

DESCRIPTION

This report will discuss the following issues:

- Projections for the release of Proposition 203 funds
- Potential problems in releasing Proposition 203 funds
- Timelines for sale of Proposition 203 bonds
- Discussion of the Pooled Money Investment Account as it relates to Proposition 203
- Commercial Paper as it relates to Proposition 203

PROJECTIONS FOR RELEASE OF FUNDS

The Board has authorized the apportionment of all Hardship and Priority 1 and 2 projects. It is estimated that fund releases for "planning" and "site" (Phases P and S) will be made within 3 to 9 months of apportionment. There are approximately $209 million in "construction" (Phase C) apportionments that are already under construction or complete. It is estimated that releases for these projects will be accomplished within the next 3 months. The remaining construction apportionments will be released within the next 6 to 12 months as the Board has a policy that requires a project to begin construction within 180 days of the construction apportionment. These apportionments and estimated date of release are as follows:

Projected Releases					
	1 to 3 months	4 to 6 months	7 to 9 months	10 to 12 months	Total
Hardships	$ 322,676	$ 9,344,664	$ 0	$ 0	$ 9,667,340
Phase P	118,435,487	0	0	0	118,435,487
Phase S	42,218,539	35,273,633	11,757,877	0	89,250,049
Phase C	209,000,000	396,842,705	264,561,803	220,468,168	1,090,872,676
Totals	$ 369,976,702	$ 441,461,002	$ 276,319,680	$ 220,468,168	$ 1,308,225,552

POTENTIAL PROBLEMS IN RELEASING FUNDS

Staff time frames for releasing funds may not be accomplished as a result of:

- Slow submittal by Districts of documents needed to release funds
- Site acquisitions that require condemnation may take more than a year
- Re-checking by the Division of State Architect for plans that were approved in excess of one year

The time frames listed above should be viewed as the optimum but most probably not the reality.

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POSSIBLE TIME FRAME FOR ISSUANCE OF BONDS

The Treasurer has indicated a bond sale may occur in August 1996. The amount of the sale will depend on the amount of the Commercial Paper (CP) that has been issued. The Treasurer will no longer make advance sales of bonds.

POOLED MONEY INVESTMENT ACCOUNT

The Pooled Money Investment Account (PMIA) accounts for funds invested by the State Treasurer as designated by the Pooled Money Investment Board (PMIB). The PMIB is composed of the State Treasurer, the State Controller, and the Director of Finance. The PMIB may make loans from the PMIA to a department that is authorized to be financed by issuing bonds. In past years, the Office of Public School Construction (OPSC) has taken out PMIA loans to fund projects between bond sales. The last time OPSC borrowed money from the PMIA was January 1994 in the amount of $200 million; subsequently, this loan was repaid in March of 94 when bonds were sold.

The PMIA interest rate varies, the OPSC paid 4.236% for the 94 loan, the current rate is 5.549%. The loan amount also earns interest while on deposit in the Lease-Purchase Fund. The current earnings rate is 5.57%; therefore the cost of the loan will be completely offset by the earnings. On May 15, 1996, the PMIB approved the OPSC's request for a loan of $408,000,000 to begin the release of funds for the Proposition 203 apportionments.

COMMERCIAL PAPER

Legislation was passed and signed into law in October 1995 that authorizes the issuance of CP notes to provide interim financing for General Obligation Bonds. Additional legislation was passed and signed into law in April 1996 allowing the interest and fees on CP to be paid from the General Fund. Using CP, a department will apply for a PMIA loan on a 12 month basis, the Treasurer will issue CP bi-weekly to pay off the loan based on cash disbursements, bonds will be sold 2 to 3 times yearly in an amount needed to retire the CP.

The benefits of using CP are many. Two year penalties on sold but unspent bond funds are eliminated as the expenditures are already made by the time the bond is issued. Negative arbitrage is avoided. Interest rates are lower as the PMIA loan is paid off bi-weekly by the CP; and the interest and fees on the CP is paid by the General Fund. The General Fund recognizes some savings also as the term of the bonds is adjusted by the term of the CP. The rates for CP are less than for bonds because they are short term borrowings, no more than 270 days.

See Attachment A for a brief overview of the Commercial Paper, Bond Sale process.