

FIND YOUR WAY TO SUCCESSFUL FACILITIES FUNDING

This workshop explores the various types of funding available for school construction and modernization, the nexus requirements for each type of funding, and methods that can be used to combine funds for specific projects.

LOCAL FUNDING SOURCES

GENERAL OBLIGATION BONDS (GO BONDS)

There are two types of general obligation bonds typically used by districts. Prior to Proposition 39, G.O. bonds required a two-thirds majority vote. This type of election is still available to school districts and does not have some of the requirements that are a part of a Prop 39 G.O. bond, however the 2/3 majority can be difficult to reach.

Prop 39 bonds pass with a 55% yes vote. They can be used for capital improvements as listed in the bond language. The district is responsible to establish an oversight committee made up of not less than 7 community members including a parent of a student in your school district, a member of a parent/teacher/student organization such as the PTA, a representative of the local business community, a senior citizen, and a member of a bona fide taxpayer organization.

NEXUS REQUIREMENTS: Proceeds must be spent on capital projects. The oversight committee is charged with watching the district to assure that the funds are being spent according to the bond language. The district is to post on its website any reports provided to the oversight committee. The board is to cause and receive a performance audit. The district is subject to fiscal audit requirements and if the funds are used to match state funds, then a project audit from the Office of Public School Construction will also occur.

SCHOOL FACILITIES IMPROVEMENT DISTRICT (SFID)

An SFID election is similar to a 2/3 majority bond election except that instead of the election being held throughout the boundaries of the district, the area of the election can be defined as not including portions of the district.

The SFID is typically used when a district has Community Facilities Districts that are paying significant developer fees for the schools in their area of the district while other areas of the district do not have CFD funds and therefore need a GO bond. Sometimes the CFD voters will not support the GO because they are already paying parcel taxes and do not feel the facilities are needed as their

schools are typically newer. SFID's are also used when a community has significant senior citizen areas that are not supportive of school bonds. Any area excluded from an SFID election does not vote and is not taxed.

NEXUS REQUIREMENTS: The nexus requirements are typically the same as for a 2/3 general obligation bond. (There are some initial requirements that must be worked out with the County Registrar of Voters, be sure that you talk to them well ahead of the election.) Proceeds must be spent on capital projects.

DEVELOPER FEES

Developer fees are collected from anyone who builds a commercial, industrial or residential project within the district boundaries. The fee is set annually by the governing board of the district and is based upon the district's Fee Justification Study. The fees are charged based on an amount per square foot of new development. (These fees are referred to in the development community as "school fees.")

NEXUS REQUIREMENTS: A Montieth Report must be presented to the governing board of the district within 120 days of the close of the fiscal year. This report must draw the nexus between the projects generating the funds and the expenditure of those funds for school facilities that benefit those projects. Funds that are not committed within 5 years must be returned.

COMMUNITY FACILITIES DISTRICTS (CFD)

Community Facilities Districts are a form of parcel tax and may be formed to cover a developer's required school fees. This type of tax is sometimes called Mello-Roos after the legislators who sponsored the enabling legislation.

As a parcel tax it must be voted on by all of the parcel owners in the proposed district and requires a 50% majority vote to pass. It is frequently used for new developments that want premier school facilities in place when the new homes go to market. The developer owns all the parcels initially and the vote is conducted after negotiation with the district on what will be included in the tax and the facilities that will result has been completed. These negotiations frequently include timing of those facilities.

The requirement to pay the ongoing taxes is then passed to the buyer of each parcel within the development. Some CFD's include a buyout option that allows the homebuyer to pay the fee up front rather than year to year.

NEXUS REQUIREMENTS: The district must abide by the commitment made in the negotiation with the developer. Verification of the parcels to be taxed and the appropriate amounts must be made every year. The district may have other

requirements to demonstrate facilities construction milestones in conjunction with specific development milestones. A portion of the proceeds can be used for administration of the funds.

PARCEL TAX

Parcel taxes are not voted on by the registered voters of an area, they are voted on by the property owners who will be taxed if the election is successful. They require a 50% majority vote. The funds may be used for a wider variety of purposes than other types of taxes, however they have proven to be difficult to pass for school needs.

NEXUS REQUIREMENTS: The nexus requirements are to provide whatever the specific election language specifies.

REDEVELOPMENT AREA (RDA)

Redevelopment areas are typically established by cities and counties to address blight. Tax increment from the RDA is redirected to funnel back into that area as improvements. The initial increment from an RDA is typically very small and increases over time if the RDA is successful in its revitalization objective.

Older RDA's reflect a negotiated percentage share that the district receives from the RDA proceeds. Newer agreements reflect a pass-through amount established by prescribed formula.

The district should seek annual verification from the city/county administering the RDA that the full increment has been forwarded to the district. If the city/county holds district increment, then the interest from that increment also belongs to the district.

Bonds are sometimes issued by an RDA to pay for projects. The bond payments made from the annual tax proceed increment. A district may sign over its increment in participation with the RDA in mutually beneficial projects.

NEXUS REQUIREMENTS: The district must demonstrate that the funds were used for projects that benefit the redevelopment area. This is a funding source that can be used for district administrative and district services projects, such as a transportation/maintenance facility, central kitchen, or district office since they benefit all students in the district thus satisfying the nexus that RDA area students benefit.

STATE FUNDING SOURCES

The state of California offers several funding programs. Some are administered by the Office of Public School Construction (OPSC) and some are administered by the California Department of Education – School Facilities Planning Division (CDE).

SCHOOL FACILITIES PROGRAM – NEW CONSTRUCTION

The SFP new construction program is designed to provide matching funds to districts who have established growth in eligibility under the SFP regulations. The district must provide their 50% match in advance of receiving the state funds and must bring their project to a construction ready status in order to apply for the funds.

This program is funded through passage of statewide general obligation bonds which require a majority vote to pass. The bonds are put before the electorate by passage of a bill that requires a 2/3 vote of the legislature. Distribution of program funds is from time to time interrupted by a lack of available funds. The OPSC typically maintains lists of qualifying projects during these times so that they can be included in the first available funding cycle once a bond is passed.

Districts typically continue to work on their district eligibility and process their projects even when the state lacks funding so that they can be in line when funding becomes available.

NEXUS REQUIREMENTS: The district must annually certify on an SAB 50-06 with supporting documentation all expenditures for the approved project. At the close of the project the district must submit the SAB 50-06. Typically the district would also submit significant contracts, invoices, and warrant records as requested. If the OPSC disallows any expenditure the district must return the funds for that expenditure to the state – even if it has already been expended on the project. The district must maintain an ongoing commitment to a 3% expenditure level for specific building maintenance funds as a condition of accepting the state funds. This is annually certified in the fiscal audit. Intentional false certification of compliance documents can result in personal liability and criminal prosecution.

SCHOOL FACILITIES PROGRAM – MODERNIZATION

Eligibility for the modernization program is established based on the age of the buildings to be modernized. The minimum qualifying age is 25 years for a permanent building and 20 for relocatable buildings. Fifty year old buildings now qualify for a higher funding level. The program is a 60/40 match program with the district providing a 40% match.

A modernization project on a campus may only address some of the buildings. There are limits on the uses of modernization funds. Typically districts use the funds to address building infrastructure replacement and modernization.

NEXUS REQUIREMENTS: The nexus requirements are similar to the new construction program and are also reported on SAB 50-06.

SCHOOL FACILITIES PROGRAM – FINANCIAL HARDSHIP

If a district has issued local indebtedness to sixty percent of the assessed valuation bonding capacity for the district, they can be considered “fully bonded” and qualify to become a financial hardship district. The funds are administered under the SFP New Construction and Modernization programs, but the local district match is not required in the same manner.

Hardship districts undergo a review to determine their available district funds that can be contributed toward their facility projects. The district is then required to expend those funds toward the project expenditures and the state will fund the balance of the project. The district is never required to fund more than the established match in the regular program.

NEXUS REQUIREMENTS: The same documentation is required as in the regular SFP program. Additional significant financial review by the OPSC is also required to establish available funds and ongoing financial status.

SCHOOL FACILITIES PROGRAM – CRITICALLY OVERCROWDED SCHOOLS

COS is a new program within the SFP. Qualifying districts receive the same amount of funding as districts in the regular SFP. This difference is that these projects qualify to have the funds reserved for them within the SFP for 4 years while they do complex site acquisitions, relocations, condemnations, and environmental clean-up. The concept is that if districts begin the process of these difficult site acquisitions, the state will be there with their share when the district is ready to go to construction.

Eligibility is needs based if the available funding is insufficient to fund all the projects submitted. There are specific submittal windows set in the authorizing law. If the fund is not fully utilized the remaining balance will be transferred to the regular program for distribution.

NEXUS REQUIREMENTS: The eligibility requirements are very detailed and specific. Once funds are received all the audit requirements of the regular program apply in addition to the COS requirements.

SCHOOL FACILITIES PROGRAM – JOINT USE PROJECTS

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Page 5 of 8

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The joint use program is designed to encourage districts to participate in projects that include financial partnerships other than the state. Specific criteria divide the applicants into three categories for priority in funding.

At least some of the partners must be financially contributing. Typical projects include training facilities, libraries and gymnasiums.

The application deadlines and funding cycle are different than for other SFP programs.

NEXUS REQUIREMENTS: Specific program guidelines must be met. OPSC audit requirements will apply to these projects.

DEFERRED MAINTENANCE

This ongoing state program funds major maintenance of school district facilities including painting, roofing, plumbing, HVAC and electrical systems, flooring, etc. The district must submit a 5-year plan for maintenance of district facilities. Deferred maintenance projects are sometimes coordinated with modernization projects to more effectively use the funds available to the district.

NEXUS REQUIREMENTS: The district must report expenditures on SAB 184 and 184a. Supporting audit documentation may be required.

FACILITIES HARDSHIP

The Facilities Hardship program is for school facilities that are no longer usable from a health & safety perspective. These are funds used to assist schools after catastrophic events. The board must declare the school unsafe and unusable.

The funds may be used for replacement or rehabilitation. The program functions as the regular state programs function with 50/50, 60/40 matches applying and Financial Hardship status available if the district qualifies. However, the normal program eligibility requirements are waived.

NEXUS REQUIREMENTS:

Projects must report the expenditures as with any other OPSC program and are subject to OPSC audit requirements.

PRE-SCHOOL MODERNIZATION

From time to time the CDE makes funds available for pre-school programs that have been in operation for many years for the modernization of their facilities. The application requires that the project budget be submitted for review by CDE prior to funding.

NEXUS REQUIREMENTS: The district must submit verifying documentation of the expenditures. Back up documentation must be made available if requested.

LIBRARY BONDS

Districts may participate as a partner if their local library system seeks a library bond. School participation increases the priority of the library proposal in seeking the grant.

This program requires a match. The district's project share may be considered as the local library's match.

NEXUS REQUIREMENTS: The school district must meet the requirements of any funding they use as the library's match and may be required to verify their expenditures on the facility.

FEDERAL FUNDING SOURCES

QUALIFIED ZONE ACADEMY BONDS (QZAB's)

These funds are made available through the California Dept. of Education - SFPD to qualifying projects for the equipping/renovation of school facilities. It is an interest free loan to the district who meets specific zone requirements. The projects must include public-private partnership. In recent years the program has been over prescribed and projects have been chosen through an annual lottery.

The funding is available through a unique tax mechanism that allows the investors who buy the bonds to receive a tax credit instead of the interest they would normally receive for municipal bonds. Because no funds are expended by the district for the interest, the bonds are interest free to the districts. The federal government receives less revenue because they give the tax credit.

NEXUS REQUIREMENTS:

Districts must verify expenditures for the project are per program requirements and must meet other partnership requirements.

FEDERAL RENOVATION FUNDS

This program was funded in 2001 to assist school districts nationwide in bringing facilities into compliance with the Americans with Disabilities Act, provide funding for urgently needed renovations, and to meet technology and charter school facility needs.

Program funding was through the California Dept. of Education – SFPD. These funds are not authorized for additional years, but continuing effort is made to reinstate this program.

E-RATE

These federal funds are specifically allocated to school districts through an extensive application process. They are available for telecommunications, internet access and internal distribution systems to assist districts in obtaining and utilizing modern technology in schools.

Research is required by the district to insure that funding applications and vendor selection is per program requirements. Significant funding has been available in recent years for this program.

BROWNFIELDS

There are federal funds available from US-EPA under Subtitle A for clean up of school sites qualifying as brownfields. Specific clean-up requirements must be met. More information may be obtained from the DTSC website fact-sheet.