State of California • Arnold Schwarzenegger, Governor
State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES
Interagency Support Division • Office of Public School Construction

1130 K Street, Suite 400 • Sacramento, CA 95814 • (916) 445-3160 • www.opsc.dgs.ca.gov

Date: January 16, 2009

To: All School Districts and County Superintendents of Schools

From: **Department of General Services**
Office of Public School Construction

Subject: **BRIDGE FINANCING/INTERFUND BORROWING POLICY FOR FINANCIAL HARDSHIP DISTRICTS – At Your Own Risk**

Per the Budget Letter 08-33 sent by the Department of Finance; which details the action taken by the Pooled Money Investment Board (PMIB) at their December 17, 2008 meeting, the Office of Public School Construction (OPSC) is now restricted from releasing funds for projects that have been approved by the State Allocation Board (SAB) or from apportioning[1] funds for new School Facility Program (SFP) projects until the current budget situation is resolved.

The OPSC offers the following guidelines to districts that are currently or may become Financial Hardship (FH) districts and are considering bridge financing and/or interfund borrowing to proceed with their SFP projects.

Please keep in mind that all financing is done at a district's own risk. There is no guarantee of future State funding. If the bridge financing method meets the following criteria, the OPSC will not consider the proceeds as available for district contribution on their SFP projects:

- Districts must contact the OPSC in writing with their request to seek bridge financing prior to issuing any debt instrument. This request must specifically list the SFP projects (name and SFP number) that will be moved forward with the bridge financing instrument.
- The District's bridge financing instrument must either be a certificate of participation, lease-purchase agreement, or other lease financing arrangement entered into with a party other than the applicant district for the purpose of financing eligible SFP project costs authorized in Education Code.
- Interfund borrowing that conforms to Education Code requirements may also be utilized to allow a district to move forward with their SFP FH project. The district must provide Detail General Ledger (GL) transactions or similar detail report to the OPSC that clearly indicate the following:
    - The transfer out of the fund the district is borrowing from and,
    - The transfer into the fund the monies were deposited in.
    - Both sides of the transaction must be detailed out to the OPSC.

1. "Apportioning" means a reservation of funds for the purpose of eligible School Facility Program projects approved by the board for an applicable school district (Education Code, section 17070.15).

Please Note: There are restrictions against moving State bond funds deposited in Fund 35 (County School Facility Fund). This applies to all districts, Financial Hardship and Non-Financial Hardship. There is, however, flexibility in using other capital facility funds for temporary loans. Please contact your legal counsel for the use of such funds.

- The net bridge financing proceeds shall not exceed the sum of the State's SFP grant and the FH apportionment approval by the SAB. The net financing proceeds shall not exceed the amount of the bridge financing instrument less finance costs of issuance, debt service reserve fund, and capitalized interest costs related to the bridge financing.

- The bridge financing instrument must have been entered into after the district received a financial hardship approval for the phase of the project for which the proceeds are being applied.

- The district must have a school board resolution or board minutes which details the bridge financing instrument or interfund transfer that will be used to move the districts SFP project(s) forward.

- If an escrow account was created for the debt instrument, then a copy needs to be submitted to the OPSC. If no escrow statement is available, the district should identify the following:
  - Details of the debt instrument used,
  - Debt service payment(s) made to date, and
  - Detailed timeline as to when the deposit will be retiring the debt.

- Once State funding is released for the previously apportioned or unfunded SFP projects, the district must utilize the State SFP grant funding to retire the bridge financing debt and/or repay the interfund transfer within **60 calendar days** of receiving the State funding.

- The district must submit documentation showing the debt has been retired. This document would include the following:
  - The Detail General Ledger which documents the transaction; and
  - School Board resolution or School Board minutes authorizing the debt retirement.

  Please Note: If satisfactory evidence is not submitted to the OPSC that the district retired its debt or repaid interfund transfers within the 60 calendar day timeframe, the OPSC will consider all proceeds from the bridge financing instrument as available contribution. This will result in the funds being available as contribution to the apportioned or unfunded SFP projects and the financial hardship apportionment would be decreased by the same amount. Additionally, a hold will be placed on any fund releases until evidence the State funding will retire the bridge financing debt is received. The board items for any SFP projects that have not been apportioned will be listing the requirement to retire the debt with the State funding received.

- After State funds are released the State will treat the debt as retired and the bridge financing related debt **will not** be included in the district's indebtedness calculation for purposes of FH qualification.

- Any bridge financing debt not retired after State funding is received will be considered as available contribution during the district's next FH review.

Districts are advised that the costs of issuance, debt service reserve fund, and capitalized interest costs related to the bridge financing are not eligible SFP project costs pursuant to Education Code Section 17074.25 and will not be eligible for reimbursement. However, these expenditures will be considered eligible to reduce a district's local contribution in a FH review.

Finally, the OPSC has no way to anticipate when funding would become available again to the school districts. The OPSC will not be able to release funding for the foreseeable future due to the depths of the State's financial crisis. School districts cannot rely on State bond funds to proceed with projects. School districts that enter into any bridge financing debt or interfund borrowing are doing so at their own risk and should carefully consider the current State fiscal situation.

For more information please contact Jason Hernandez at (916) 324-4687 or Steve Inman at (916) 445-3269.

ROB COOK
Executive Officer
Office of Public School Construction
SAB