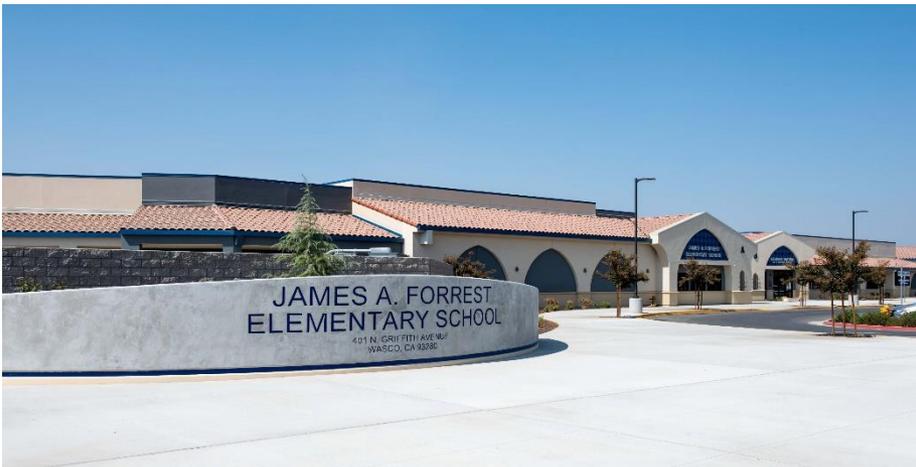




Office of
Public School Construction

SCHOOL FACILITY PROGRAM

FINANCIAL HARDSHIP PROGRAM OVERVIEW



INTRODUCTION

➤ **Topics include the following:**

- ❑ Purpose of Financial Hardship
- ❑ The process and requirements for determining district eligibility
- ❑ The process for determining district available contribution
- ❑ How project savings or overspent are disposed
- ❑ Potential problems and how to avoid them

FINANCIAL HARDSHIP

- Purpose of Financial Hardship (FH) is to assist districts and COEs that cannot provide their matching share.
 - ▣ New Construction, Modernization & Facility Hardship only.

New Construction Non Financial Hardship

State Share 500K
District Share 500K
Total Project Funding 1M

VS.

New Construction Financial Hardship

State Share 500K
Financial Hardship Share 400K
District Share 100K
Total Project Funding 1M

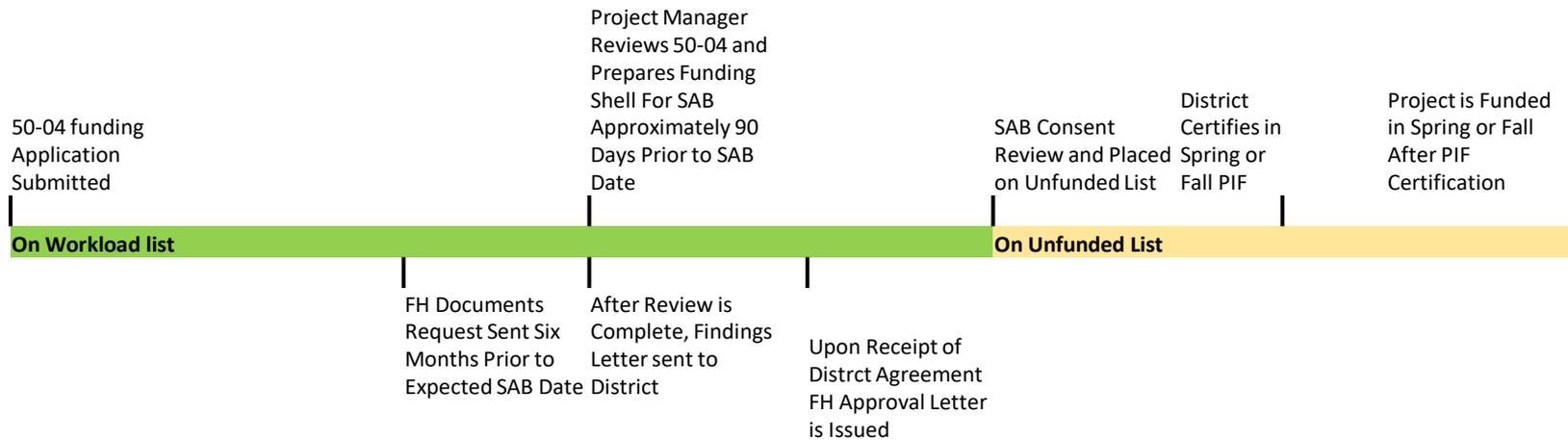
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➤ Review Process

- ❑ District submits funding application (SAB Form 50-04), checks box for Financial Hardship request.
- ❑ OPSC notifies district 90 days prior to application processing, or six months
- ❑ District submits Phase I and II Checklists, Project Worksheets, Fund Worksheets and Supporting Documentation within 60 days.
- ❑ Financial Hardship Approval and Funding Application processed concurrently.
- ❑ Findings Letter Issued Upon Review Completion
- ❑ Approval Letter Issued Upon District Concurrence With Findings

FINANCIAL HARDSHIP

➤ Financial Hardship Processing Timeline



FINANCIAL HARDSHIP

➤ Consists of two phases

- ❑ Phase I – Determines District Eligibility (COE is automatically eligible but still submits Phase I checklist)
 - <https://dgs.ca.gov/opsc/forms> for Phase I Checklist

- ❑ Phase II – Determines Amount of District Funds Available for Contribution
 - <https://dgs.ca.gov/opsc/forms> for Phase II Checklist
 - Available funds has two components: available funds and contribution due to expenditure

FINANCIAL HARDSHIP

➤ Non-County Office of Education (COE) Eligibility Determination – Phase I

District must be levying maximum developer fee justified under law

AND

➤ Meet one of following criteria:

- Long-term debt of 60% or more of debt capacity
- Successful voter bond election within past 2 years
- COE
- Total bonding capacity is \$5 million or less
- Other evidence of reasonable effort approved by the State Allocation Board

FINANCIAL HARDSHIP

➤ Bonding Capacity

- ❑ 2.5% of Assessed Valuation for Unified School Districts
- ❑ 1.25% of Assessed Valuation for Other Than Unified School Districts

➤ Calculation Example for \$100 million Assessed Valuation

- ❑ Unified School District: $2.5\% \text{ times } \$100,000,000 = \$2.5 \text{ Million Bonding Capacity}$
- ❑ Other than Unified School District: $1.25\% \text{ times } \$100,000,000 = \$1.25 \text{ Million Bonding Capacity}$

FINANCIAL HARDSHIP

➤ Eligibility Determination – Phase II

- OPSC reviews district facility funds to determine amount of facility funds available for district match.
 - Facility funds are funds 21 through 50
 - Review revenues and expenditures for up to past 3 years
 - Review transfers in to or out of facility funds
 - May examine Special Reserve Funds for availability
 - Available funds may be reduced by encumbrances
 - Certificates of Participation are available funds unless issued for purposes of bridge financing

FINANCIAL HARDSHIP

➤ Funding

- ❑ If available funds are less than the district match, the State will fund the difference between the district match and the district available funds
- ❑ Qualifying COE/Districts may request site and/or design funding prior to requesting full funding if eligible for Financial Hardship and available funds are less than the site/design grant
- ❑ FH approval is valid for 6 months from the date of the issued approval letter

FINANCIAL HARDSHIP

➤ Bridge Financing

- ❑ A means for a district to borrow funds to start a project without impacting the amount of Financial Hardship received
- ❑ OPSC encourages districts to request approval of bridge financing in advance of submitting hardship package or issuing debt instrument
- ❑ The district must recognize an element of risk

- ❑ Requires a Board Resolution that includes
 - Identifying the source of funds
 - Identifying the use of funds
 - Identify the amount of funds
 - A statement that borrowed funds are to be repaid within 60 days of receipt of the first dollar of State funding
 - A statement that the Board recognizes State funds may not be received

FINANCIAL HARDSHIP

- **EXAMPLE RESOLUTION AUTHORIZING USE OF HARDSHIP FUNDS**

- **2015-2016**

- **WHEREAS**, The (District Name) School District has a need for the expenditure of funds to cover costs in a (provide a brief description of the anticipated project(s)), and costs incidental thereto (“Project”);
- **WHEREAS**, the District is applying for financial hardship funding for the Project from the Office of Public School Construction (“OPSC”);
- **WHEREAS**, the District has consulted with OPSC and determined that the urgency of the project is such that initiation of the project must occur prior to receipt of State funding..
- **NOW, THEREFORE, BE IT RESOLVED** by the Board of Trustees of the (District Name) School District, as follows:
 - **Section 1.** All of the recitals herein contained are true and correct and the Board so finds.
 - **Section 2.** The District authorizes funds in the amount of XXXX from (describe the source of borrowed funds) to be used for the projects(s), which funds shall be repaid within 60 days after receipt of State funding for the project.
 - **Section 3.** The Board recognizes and accepts the fact that there is no guarantee of State funding for this project and proceeds at their own risk.
 - **Section 4.** District staff is hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, including, without limitation, executing agreements, certifications and other necessary documents and transmitting documents to OPSC to indicate compliance with OPSC regulations.
 - **Section 5.** All actions heretofore taken by the officers, employees and agents of the District with respect to the transactions set forth above are hereby approved, confirmed and ratified.
 - **Section 6.** This Resolution shall take effect from and after its date of adoption.
- **PASSED AND ADOPTED** this ___ day of April, 20xx, by _____ Ayes _____ Noes
- Chair, Board of Trustees District Superintendent

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➤ Project Savings

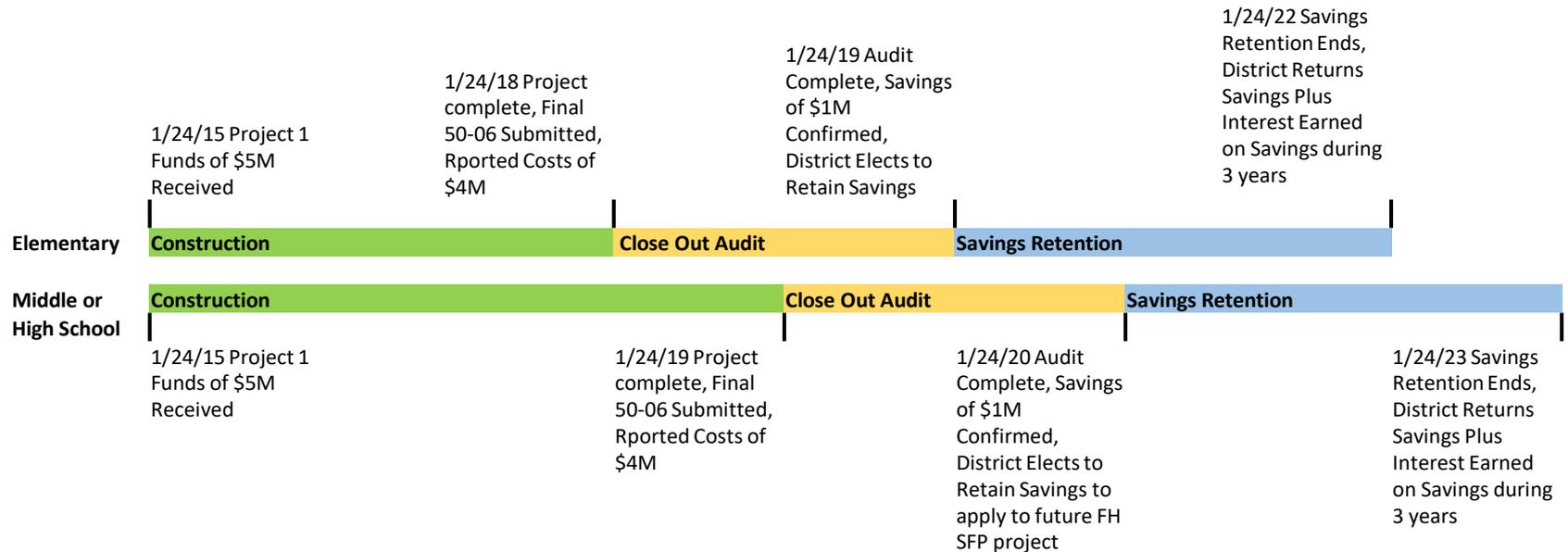
- If a close-out audit determines that a Financial Hardship project has savings, there are two options:
 1. The savings may be retained for up to 3 years to offset the Financial Hardship to reduce the grant for a future Financial Hardship project apportioned within the 3 year period.

OR

2. The savings must be repaid to the State.

FINANCIAL HARDSHIP

- Timeline example for retained savings to be applied to future FH SFP project



FINANCIAL HARDSHIP

- A District with a project determined by close out audit to be overspent has two options:

State Apportionment	\$2,500,000
FH Apportionment	\$2,500,000
Interest	\$0
Total Project Costs	\$5,000,000
Audited Expenditures	\$6,000,000
Overspent Amount	(\$1,000,000)

- ❑ Retain the overspent amount for up to three years to reduce the Financial Hardship amount on a future Financial Hardship project.
- OR
- ❑ Agree to remain out of the Financial Hardship Program for three years from the date of the last School Facility Program grant received.

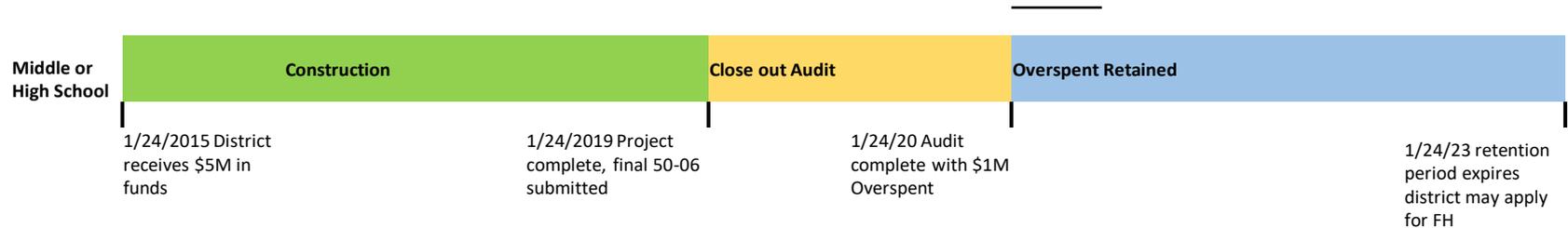
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- Overspent Example: Middle or High School
 - ❑ 1/24/15 District Receives \$5 Million in State Funds
 - ❑ 1/24/19 – Final Expenditure Report Submitted with \$6 million in expenditures
 - ❑ 1/24/20 – Audit Complete with \$1 million Overspent & District Elects to Retain Savings to Offset Future Financial Hardship Project
 - ❑ 1/24/23 – Deadline to Offset Future Financial Hardship Project Within Three Years.
 - ❑ If the District has no projects to offset before 1/24/23, then they stayed out the required three years and no funds are due the State.

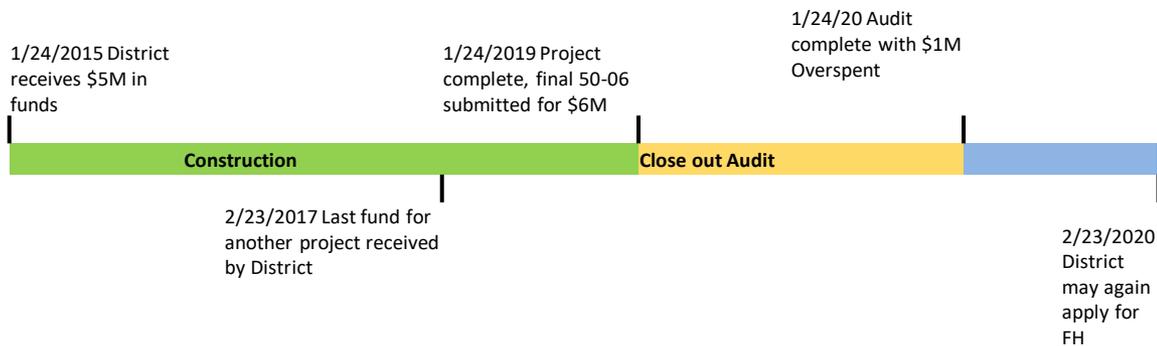
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➤ Financial Hardship Overspent Timelines

Overspent Retained



District Elects to Stay Out of FH



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➤ Potential Problem Areas

- ❑ Developer Fee Resolution
- ❑ Unsold Bonds
- ❑ Encumbrances
- ❑ Contribution Due to Expenditure

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➤ Developer Fee

- ❑ District must have a current resolution setting a developer fee at the maximum allowable under law

- ❑ Three levels of developer fees:
 - Level I – Set by the State Allocation Board in January of every even year. District must have a current justification study in place. Current rates are \$4.08 for residential and \$.66 for commercial construction.
 - Level II – Set by the district board after completion of a Needs Analysis Study to justify the higher level of fee
 - Level III – Set only when the State Allocation Board notifies the Assembly in writing that there are no State funds available

- ❑ District may provide documentation showing that a developer fee cannot be levied

- ❑ <https://dgs.ca.gov/opsc/resources/annualadjustmenttosfpgrantsanddeveloperfeehistory>

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➤ Unsold Bonds

- ❑ Bonds that are authorized but unsold may be counted as district funds available to contribute to the district matching share for a project

- ❑ Potential exceptions to counting unsold bonds:
 - Restrictive bond language

 - District is at taxation limits or sale will exceed taxation limits

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➤ Unsold Bonds Example

- ❑ 2016 District Passes \$20 Million Bond
- ❑ 2016 through Financial Hardship application, District sells \$15 Million in bonds, \$5 Million remaining unsold bonds are considered available funds
 - ❑ UNLESS: Bond language excludes current project or district is already at taxation debt limit of \$30 per \$100,000 assessed valuation for other than unified districts or \$60 per \$100,000 assessed valuation for the bond passed.

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➤ Encumbrances

- ❑ Reduce the amount of funds available for district matching share
- ❑ Must be listed on the fund worksheet
- ❑ Must be for a capital facility project other than the project(s) for which Financial Hardship is being requested
- ❑ Must be supported by a contract or legal commitment of funds and only for the amount remaining on the contract
- ❑ If for debt service, is only for one year's debt service from the date of application and debt service must be paid from the fund for which the encumbrance is requested

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- Examples of Eligible and Ineligible Encumbrances

- Eligible
 - ❑ A construction contract for a project other than projects on the FH application
 - ❑ A debt service payment for prior borrowing if paid from the fund (only one year of debt service eligible)

- Ineligible
 - ❑ A contract for non-facility items such as cleaning supplies
 - ❑ A construction contract for a project on the Financial Hardship application

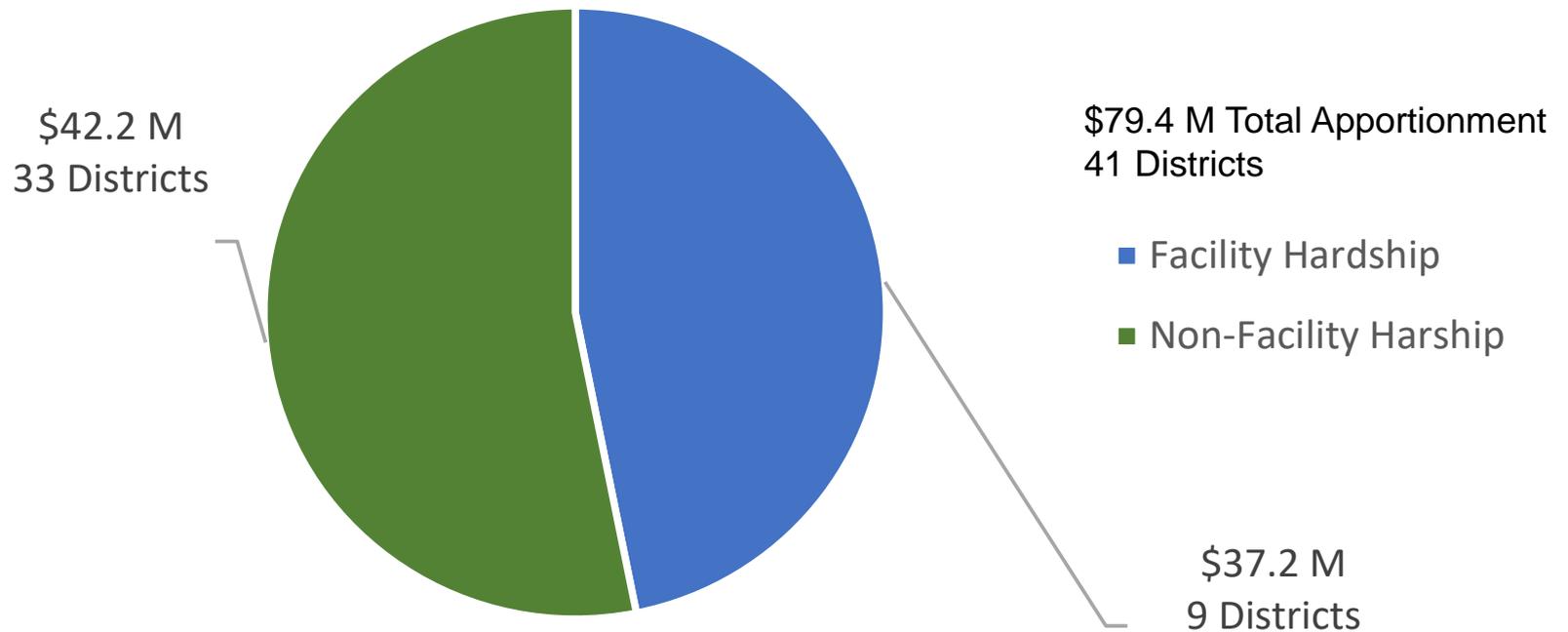
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➤ Contribution Due to Expenditure

- ❑ Is expenditures made on the project(s) for which Financial Hardship is being requested prior to the date of Financial Hardship application
- ❑ Is counted as part of district matching share contribution and reduces the amount of Financial Hardship
- ❑ Is reported on a Detailed Listing of Project Expenditures (DLOPE)
- ❑ If a district expended funds prior to a Financial Hardship approval by OPSC, these expenditures may be exempted as Contribution Due to Expenditure (only if expenditures were made with Bridge Financing Funds and after the District adopted a Bridge Financing Resolution).

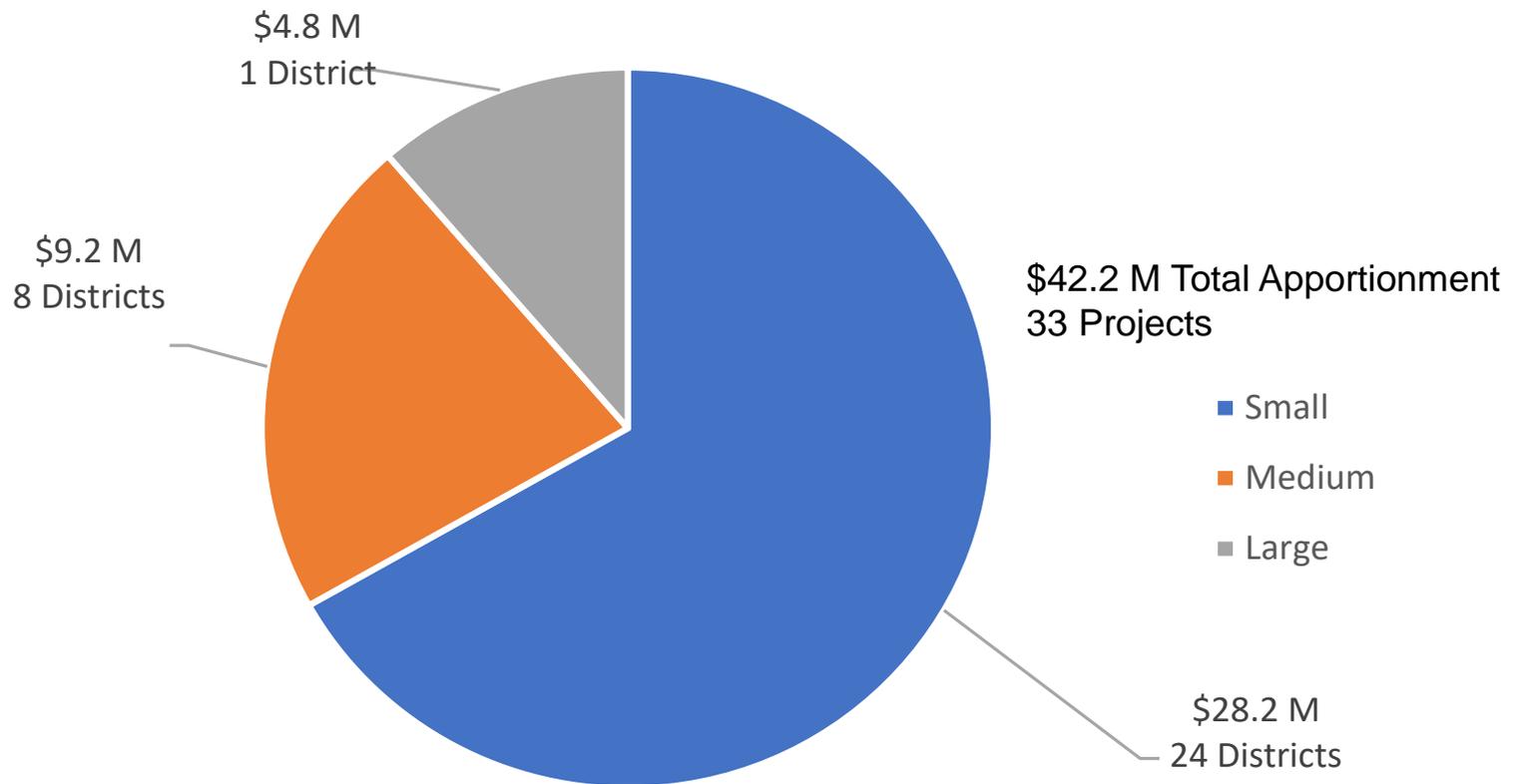
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2020 FH Dollars By Facility Hardship And Non-Facility Hardship



FINANCIAL HARDSHIP

2020 FH Dollars Non-Facility Hardship By District Size



Resources

- OPSC Website: <https://www.dgs.ca.gov/OPSC>
- ❑ Various forms and links are available under Access Financial Hardship Assistance for School Construction at <https://www.dgs.ca.gov/OPSC/Services>
- ❑ The School Facilities Program Handbook, Section 10 can be found at <https://www.dgs.ca.gov/OPSC/Resources>
- ❑ Forms such as Phase I and II checklist, project worksheet and fund worksheet can be found at <https://www.dgs.ca.gov/OPSC/Forms>

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- SAB Agendas
- Priorities in Funding Announcements, and
- Other SAB/OPSC Information

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➤ **QUESTIONS?**