

# Frequently Asked Questions

## Financial Hardship Program

### Q. *What is Financial Hardship?*

Financial Hardship (FH) provides additional funding of up to 100% of a district share for a School Facility Program eligible project where the district is unable to provide its matching share of the project costs.

### Q. *What is the process for a district to receive Financial Hardship approval?*

The district approval for Financial Hardship consists of two phases. First, the district submits a completed phase I Financial Hardship Review checklist (found on the Office of Public School Construction (OPSC) website) and supporting documentation to OPSC. This information is reviewed to determine if the district meets the criteria for eligibility, and is therefore eligible for Financial Hardship. If the district is determined eligible, OPSC will notify the district and request a completed Phase II Financial Hardship Review checklist and supporting documents be submitted. This information is reviewed by OPSC to determine the funds the district has available for a district matching share. A letter indicating the amount of available funds for district match is then sent to the district for review and concurrence. Once OPSC receives the signed concurrence from the district, a Financial Hardship Approval letter is sent to the district. This approval for Financial Hardship is then valid for six months from the date of the letter. After that time, a district would have to resubmit another application for Financial Hardship.

### Q. *When is a district eligible for Financial Hardship?*

To be considered eligible for FH, a district must be currently levying the maximum allowable developer fee AND meet one of four conditions:

- Have a current bonded debt that is 60% or more of district debt capacity, or
- Have had a successful registered voter bond election for at least the maximum amount allowed under Proposition 39 within the previous two years from the date of request for financial hardship status, or
- be a County Office of Education, or
- have a debt capacity of \$5 million or less at the

time of the request for financial hardship status.

If the district is determined to not meet any of the criteria above by a Phase I review by OPSC, the district may submit an appeal to the State Allocation Board (SAB) under other evidence of reasonable effort.

### Q. *What is the maximum allowable developer fee?*

The current maximum I developer fee is \$3.48 per square foot for residential property and \$.56 per square foot for commercial property. This rate was last set by the SAB in February of 2016. This rate is reviewed/revised in January of every even year. Upon each revision, a district should pass a Board resolution levying the new fee in order to be eligible for Financial Hardship, unless they meet the expectations below.

A district may levy a fee that is less than this provided the lower rate is supported by a justification study completed within the prior two years.

A district may also levy a higher fee (commonly called Level II) if it has met the condition to conduct, and completed, a Needs Analysis Study within a year prior to levying the fee.

### Q. *How is debt capacity calculated?*

A district's debt capacity is 2.5% of the assessed valuation of the property in the district if the district is a unified school district. For all other districts that are not unified districts the debt capacity is 1.25% of assessed valuation. The assessed valuation is obtained from the County Tax Assessor.

For example, if the assessed valuation of property in the school district is \$1 billion, the debt capacity would be \$25 million if the district is a unified district and \$12.5 million for a district that is not a unified district.

### Q. *What is bonded debt comprised of?*

Bond indebtedness includes that part of general obligation bonds, Mello-Roos bonds, School Facility

Improvement District bonds and certificates of participation issued for capital outlay school facility purposes.

**Q. *How much Financial Hardship is a district eligible to receive and how is it determined?***

A district is eligible to receive up to 100% of the district share of an eligible SFP project. First, OPSC reviews information submitted by the district to determine if the district is eligible for Financial Hardship. If so, OPSC reviews the district facility funds (Funds 20 to 50) to determine how much cash the district has available and how much has already been expended on the project(s) being applied for (known as contribution due to expenditure). The total cash available plus the contribution due to expenditure is the district contribution. If the district contribution is less than the district share, the district will receive the amount needed to bring the district share to 100%.

For example, if the district share of a project is \$100,000 and the district available funds is \$20,000; the district would receive the difference, or \$80,000, as Financial Hardship.

**Q. *What does the Phase II review consist of?***

In a Phase II review OPSC reviews the revenues, expenditures, and funds transfers into and out of the district facility funds 20 through 50 to determine the amount of district funds available in the district facility funds and expenditures on the projects applied for. The amount of funds available is also reduced for encumbrances, which are prior commitments of district funds such as long term debt payments or prior contracts for items or projects not being applied for that are not yet paid. These encumbrances can only be made during an initial review. In any subsequent renewal review, the only encumbrances generally allowed are for recurring payments such as debt service and any unpaid balance of the original encumbrances.

**Q. *When should a district apply for Financial Hardship?***

Under a recent change, a district may now apply for FH concurrently with the processing of a Form SAB 50-04 funding application. Previously, FH approval needed to be obtained prior to submitting the application for funding. Now the district simply checks a box that FH approval is requested at the time the application is submitted. FH documents are submitted at a later date after request by OPSC. Once processed and approved, the FH approval is good for six months.

At this time, OPSC is working through a workload list of projects that previously applied for funding. If a district has projects on this list, OPSC will be notifying districts of when to submit FH applications in conjunction with processing the applications for funding. The FH review is being timed so that a

district doesn't go through a FH review, only to have the approval lapse before the funding application goes to the SAB. If this were to happen, another FH review would be required.

**Q. *What is the timeline for the FH process?***

The goal for processing a FH review is 90 days or less. This is dependent on the current workload list and the completeness of documentation received from the district in its application. If the documentation received is incomplete or inaccurate, the process can be delayed.

**Q. *What are some of the documentation issues encountered during the Financial Hardship Phase II and Phase II reviews?***

Some documentation issues that extend the time needed to complete a Financial Hardship Phase I review are:

- Not providing a copy of the school board resolution implementing the current developer fees.
- If the district is levying a Level II fee, not providing a copy of the Needs Analysis Study completed within one year prior to the Financial Hardship application.
- If qualifying for eligibility under Section B1 or B2 of the Phase I Financial Hardship Checklist, not providing all documentation listed under each section.

Common issues that occur during processing the Phase II Checklist are:

- Not receiving COP booklets for any COPs issued and currently active.
- Not receiving Bond booklets for any General Obligation Bonds issued and active and the Ballot proposition for each of those Bonds.
- Not providing full explanations of funds transfers in to or out of any facilities funds during the periods of time on the Fund Worksheets.
- Not receiving a Project Worksheet for each project being applied for.
- Not receiving a Fund Worksheet for each facility fund of the district.
- Not receiving copies of a Detail General Ledger for each year on the Fund Worksheets.
- Not receiving an Expenditure Report by project for any expenditures on the project(s) for which Financial Hardship is being applied.
- Not receiving supporting documentation and explanations for any encumbrances being claimed.

**Q. *Can a district request additional projects after receiving FH approval?***

The FH approval is valid for six months after the date of the approval letter sent to the district. During those six months, the district may add additional projects by providing a letter requesting the addition and a Project Worksheet for each project added.