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Newsflash:

Ask us how to calculate the energy cost savings on your solar project!

Public Finance Perspectives

What's the Skinny of Funding Cash Flow Given State Deferrals?

With the recent approval of the 2010-2011 State Budget, it is a good time to educate employees, bargaining units, and school boards on the impact State deferrals have on a school district's general fund budget.

The problem can be summarized by the following example. Let's say your district has a revenue limit of \$50 million. Approximately \$30 million of the revenue limit is funded from property taxes and approximately \$20 million is funded from State apportionment. The State is deferring approximately 30% of the State apportionment. The State deferral means that the district will not receive approximately \$6 million of the State apportionment during the district's current fiscal year. Instead, the \$6 million will be received in the



subsequent fiscal year. Absent a sizeable ending fund balance or other funds that can be used for a temporary, internal borrowing, this district will have a negative cash balance at June 30.

Unfortunately, the story doesn't end there.

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Capitol PFG Welcomes Our Newest Team Member



Veteran Financial Advisor, Patti Gorczyca, has joined Capitol PFG, with the aim of building out our firm's Southern California practice.

Managing our new Orange County office, Ms.

Gorczyca brings 33 years of public finance and management experience, having served as a policy maker, public executive and financial advisor. Patti holds expertise in financial and

strategic planning, budget, capital and lease financing, pension and OPEB, asset liability management and financial problem solving for local governments.

During her 12 year career as a Financial Advisor, Ms. Gorczyca managed PMG Financial Consulting, served as a Senior Managing Consultant for Public Financial Management, Inc. (PFM), and Assistant Vice President for the financial advisory firm Evensen Dodge. Patti also served as a Senior Vice president for Kinsell Newcomb & DeDios, an investment

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“The current practice for cash flowing year end deferrals is to issue a TRAN prior to the deficit . . . and repay the TRAN on October 1.”



Cash Flow (Continued from Page 1)

Last year, the State implemented partial deferrals of State apportionments for the months of July and August. In 2010-11, the State deferred the remaining July deferral, and increased additional deferrals for September and October. The regime of 2010-11 deferrals is creating chaos for purposes of maintaining working capital and projecting cash flow.

School districts have a couple of options for addressing their cash flow. The simplest solution is to borrow from funds on hand (EC 42603) or from the County Pool (Article XVI of the Constitution). If neither of these options work, districts can issue Tax and Revenue Anticipation Notes (TRANs) to cover the end of the year deferrals as well as the deferrals that come early in the following fiscal year.

Historically, the difficulty from issuing TRANs to cover deficits at fiscal year end have been two-fold:

- 1) TRANs can only be issued and repaid from revenues attributed to the fiscal year in which the TRAN was issued.
- 2) In the early 2000s, the Internal Revenue Service (IRS) aggressively pursued school districts who issued 15 month TRANs (thereby crossing fiscal years) even though State law authorizes them.

The IRS crackdown came because districts were maximizing the profit they could make by issuing a 15 month TRAN instead of a 12 month TRAN. Clearly, market conditions have changed. Low TRAN investment rates do not offer districts opportunities to earn additional interest earnings because the borrowing cost on a long term TRAN is likely greater than the interest that can be earned.

The current practice for cash flowing year end deferrals, is to issue a TRAN prior to the deficit, say in May or sooner, and repay the TRAN on October 1. In order to accomplish this type of borrowing, districts need a 15 month cash flow.

The purpose of this cash flow is to capture all 2010-11 revenues and expenditures while excluding revenues and expenditures for 2011-12. The cash flow shows the 2010-11 deficit being funded in June, July and August. It will also show the prior year deferrals being received prior to the October 1 repayment date. A separate, standard TRAN would be issued at the beginning of July to advance fund property taxes and the 2011-12 deferrals. This separate TRAN would function as a more ordinary, twelve month TRAN.

Each district's cash flow needs will vary depending on their overall cash position and revenue and expenditure patterns. The goals remain virtually unchanged. That is, districts will want to have sufficient working capital to support operations; analyze cost effective options for addressing cash flow short-falls; reflect budget impacts associated with internal or external borrowing costs in the budget; and effectively communicate to stakeholders the difference between the budget and cash flow.



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banking firm.

As a Financial Advisor, Patti served public agencies throughout the State, but focused on public agencies located in Southern California, particularly in the Orange, Riverside and San Diego Counties.

Recognizing Patti's pension expertise, Patti was appointed to serve on the Board of Retirement of the Orange County's Employees Retirement System (OCERS) on June 24, 2008. Ms. Gorczyca currently serves as Chair of the OCERS Private Markets Committee and was selected as Vice Chair of the Board on November 23, 2009.

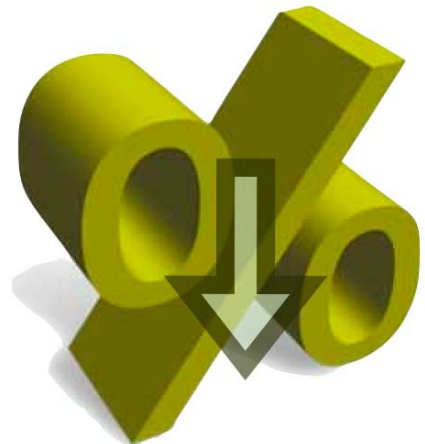
Patti is a past member of the Government Finance Officers (GFOA) and served as technical advisor to and member on the GFOA Debt and Fiscal Policy Committee and chair of its Subcommittee on Tax Policy and Disclosure. She is also a member of the California Society of Municipal Finance Officers (CSMFO). Patti holds a B.A. Degree in Economics from the University of California at Los Angeles and an M.A. Degree in Planning and Public Policy from the University of California at Irvine.

We are happy to have Patti on our team!

The 2010 Qualified School Construction Bond Allocation is Here!

The Qualified School Construction Bond (QSCB) Program can be a successful low cost borrowing program for public school facilities. The trouble is that few school districts have been able to successfully access the QSCB Program. The QSCB Program is in high demand, but, the State has been slow to implement it. As you may have heard, the State recently announced the process for allocating QSCBs.

On December 1, 2010, California Department of Education (CDE) will allocate close to \$900 million of QSCB authority. This includes \$650 million for 2010 and \$214 million of 2009 allocation that went unused and was returned back to the State. An additional \$68 million will be allocated to charter schools through the California School Finance Authority. The State has tightened up the requirements for allocating QSCBs because a large number of districts applied for 2009 QSCB authority and did not issue.



Here is a [quick checklist](#) of what you need to know about the QSCB Program:

- Applications cannot be submitted prior to November 5, 2010. Applications will be accepted until all authorizations are issued. Send your application only by certified mail and postmarked on or after November 5, 2010.
- Your governing Board must adopt a resolution authorizing the QSCB application before it is submitted.
- There is not a minimum amount of QSCB that can be requested. The maximum amount is \$25 million.
- QSCB proceeds must be spent on public school facilities and related equipment.
- Approximately 10% of the QSCB proceeds must be encumbered within six months of issuance.
- School district must issue the QSCB using a voter-approved bond financing such as general

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Sound Advice has Arrived . . . Facilities Use Fees



Is your district charging users the right fee to use school facilities? Commonly referred to as the Civic Center Act, sections 38130 - 38138 of the Education Code provide for the general rules and guidelines in making available school district facilities or grounds for "public, literary, scientific, recreational, or educational meetings, or for the discussion of matters of general or public interest". The Civic Center Act also lays out the provisions for recouping the costs associated with making school district facilities available for various groups and organizations. Whether its direct cost, fair rental value or commercial use, there may be legal methodologies available to justify increased recovery of district costs. Examples of costs that may be recouped are janitorial services, supplies, utilities and staff time necessitated by the use of school district facilities. If you haven't reviewed your facility use fees now may be a good time for an update.

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obligation bonds. Applications relying on Certificates of Participation and lease type financings will only be accepted if the applicant is a county office of education or school district with an enrollment of 2,500 or less and there is a resolution authorizing the issuance.

- Districts who received a direct allocation from the Federal government cannot apply. District's who received a 2009 allocation cannot apply prior to June 24, 2011.
- Districts have up to 6 months from the date of authorization to issue their QSCBs.

There is no way to determine if the QSCB Program will be oversubscribed. We believe that CDE will receive many applications. The State has established criteria for distributing QSCB authority if the QSCB Program is oversubscribed. The criteria is as follows:

- Earliest date of postmark.
- Approval by Division of the State Architect
- The percentage of pupils who qualify for the federal free and reduced priced meals in the 2008–09 school year

Overall, we believe that the QSCB Program has been very successful. Based on our experience, and depending how issued, school districts issuing QSCBs can expect zero or near zero interest costs. We would be happy to share more information about the program and cost effective ways of implementing QSCBs at your request.