California School Finance Authority

Webinar Transcript
Weathering the K-14 State Apportionment Deferrals – State Budget, Cash Flow Management and TRANs
July 28, 2020

School districts, County Offices of Education, community college districts and charter schools (Local Educational Agencies or LEAs) will not be insulated from the recessionary effects of the COVID-19 outbreak impacting the State budget in FY 2020-21. The deferral of State apportionment payments for up to seven months will create unprecedented challenges for LEA cash management. Some form of external, short-term borrowing may be required to maintain financial liquidity. Tax and revenue anticipation notes (TRANs) are a relatively convenient and low-cost borrowing option for LEAs. In coordination with CDIAC, this CSFA webinar will brief LEAs on the K-14 aspects of the State's FY 2020-21 budget and its implications for cash flow management; describe the process by which LEAs size and issue a TRAN; and, present CSFA's plans for two new pooled TRAN programs which will provide K-14 districts and charter schools with simple, timely and fully transparent access to the capital market.

[Editor's Note: This transcript has been prepared by the California School Finance Authority (CSFA) and it believes it to be a fair and accurate reproduction of the comments of the speakers. Any errors are those of CSFA and not the speakers.]

Title Slide - Weathering the K-14 State Apportionment Deferrals -State Budget, Cash Flow Management and TRANs

Automated Message: The broadcast is now starting. All attendees are in listen-only mode.

Katrina Johantgen: Hello and thank you all for joining us this morning. My name is Katrina Johantgen and I'm the executive director of the California School Finance Authority or CSFA. As the chair of CSFA, State Treasurer Fiona Ma recently called on the Authority to assist California's education sector with weathering the COVID induced recession and the effects of state deferrals. This webinar is part of the assistance process. We hope you find this webinar informative and that it provides you with the tools you will need to withstand the state deferrals and these unprecedented times. We have convened an esteemed panel of experts to address these matters and at this time it is my honor and privilege to welcome State Treasurer Fiona Ma and former Superintendent of public instruction, Jack O'Connell. Welcome.

Fiona Ma: Good morning everyone. Thank you to the California School Finance Authority for hosting this educational seminar, and the California Debt and Investment Advisory Committee for their support and assistance in ensuring the success of this webinar. This is the first in a series of educational webinars sponsored by CSFA. And welcome to the thousand participants that registered for this important event to learn more about the state's 20/21 budget and planned deferrals, and the significant impact the deferrals will have on districts' cash management. Participants will learn more about tax and revenue anticipation notes that will help districts weather the deferrals. As the chair of the California School Finance Authority, we are working to help schools throughout the state facing economic repercussions resulting from the global response to the coronavirus pandemic. As the chair of the CSFA, we work closely with the Authority's other two members, Superintendent of Public Instruction Tony Thurmond, and Director of Finance Keely Martin-Bosler, to ensure that California's public schools have the educational facilities and working capital they need. We also work to ensure the programs the Authority administers are done so responsibly, with an emphasis on developing best practices that ensure that coveted state and federal dollars are deployed and used in the manner they were intended. Today we are joined by former Superintendent of Public Instruction and CSFA board member Jack O'Connell. Jack has been a distinguished public servant and public policy advocate in California for over 40 years, all four of those decades spent in public education. In his 28-year career as a public servant Jack served in all major areas of elected leadership in the state. He began his public service career as a teacher at his alma mater, Oxnard High School, where my husband was born and raised and still lives. He subsequently successfully ran to serve California's 35th district in the State Assembly where he served from 1982 to 1994. This was followed by his term on the Santa Barbara County School Board where he served from 1994 to 1996, during which time he was elected as State Senator for California's 18th district. During his time in the legislature, Jack was integral in the authorship and passage of prop 39 in 2000, which reduced the threshold to pass local district bonds from two-thirds to 55%. Since prop 39's passage and through January 2011, voters have approved 23 billion dollars in school bonds that would have failed under the two-thirds requirement. In 2002, Jack successfully ran to be the Superintendent of Public Instruction. In his time as Superintendent, Jack helped shrink classes, cement higher academic standards, and close the racial achievement gap. Jack steadfastly guided the Department of Education during California's last major fiscal crisis, namely the great recession. When California's shriveling state budget squeezed schools, Jack zoomed around the state to call for more funding while urging schools to stay on target and continue to do more with less. Thanks to his leadership, California schools and students came out of the recession smarter and more nimble. Jack has also served as a member and chair on a number of boards, commissions and authorities including CalSTRS. His experience with, and understanding of California education policy is unrivaled, and he has been one of California's true education leaders. My first question to you, Jack, is when you were Superintendent during the last major fiscal crisis that affected our state and our schools, can you tell us something about that experience for you, life in the trenches, lessons learned, et cetera?

Jack O'Connell: Yes, and Treasurer Ma thank you very much for doing this, and for that generous introduction--I couldn't have written that any better myself; and for stating that I "zoomed" around the state during the great recession. Now I'm doing a different type of *zooming* here with you today. I can tell you during that great recession, I said it then and I'm going to say it again now with this pandemic and the many challenges that we face: our students aren't going to wait. We cannot make excuses. We have to prepare our students for the future, whether it's going to college, career, to become better citizens in this democracy. Our students aren't going to check the general fund of the State of California, they are counting on us. So, what I said then to the education community, and I would say the same thing today, is that we have to be creative, we have to be innovative, we have to go out and form and try new things. Form new partnerships with folks. We have to be more creative than ever before. Get our State Treasurer actively involved in helping us just exactly like you're doing. We're facing, as you reference, the largest deferrals in terms of dollars that we have ever faced. You are going to hear from two friends of mine, John Gray and Mike Fine. These are the largest amounts of deferrals we've ever had. Maybe not in terms of percentage of the state general fund, but just in terms of real dollars. And you are going to hear that from two eloquent spokespeople. While we don't know how much money might be coming to help us from the federal government, one thing we do know with certainty is we have a State Treasurer who is a strong, strong supporter of public education. The whole idea of putting this together and seeking your help and that of the School Finance Authority, really started with Kevin Gordon, a friend of yours, the president of capital advisers. Kevin asked, given the magnitude of this problem for so many of our school districts, for so many of our County Offices of Education, and yes--for so many of our charter schools, part of our public school family, how can we bring down the cost of borrowing? Kevin wanted to try to create more competition within this realm, for example: How can we get you to help us get additional our 58 county treasurers involved? How can we have more options? How can we get more competition to drive the cost down on the schools where they are already stretched with their budget? This is the type of innovation, creativity, assistance, that we so desperately need.

Fiona Ma: Thank you, Jack. Besides managing the State's money, about $2.6 trillion in revenues every year, about $100 billion in short-term investments, and also selling bonds, I chair 16 different boards and commissions, one of which is the CSFA. And one of the mandates that I've really asked my Executive Directors is what can we do to assist more? I'm a product of the public schools, my mother was a public-school art teacher for 19 years. My heart and my passion is to ensure that every student has the highest quality education, and the best opportunity to learn, regardless of whether they can afford to go to school or not--it should be free. And so, I thank you, Jack, for all that you're doing. I know Kevin has been a great mentor to me when it comes to education and what is happening, and I thank him for sparking this idea of having this webinar and also pushing our organization to do more, even in this time when so many people are seeking our guidance, our assistance, and financial and fiscal assistance. Once again, I want to thank Jack for his long-term service and leadership, and for being just a good friend and mentor to me over these years. Now I'm going to turn it over to Katrina Johantgen, Executive Director of CSFA, to provide remarks, introduce the panelists and provide an overview of CSFA.

Jack O'Connell: Thank you, Fiona.

Slide 2 – Housekeeping **9:25**

Katrina Johantgen: Thank you so much. And now it is time for the obligatory housekeeping slide. If at any time you are experiencing technical problems, please contact Go-To meeting at (877) 582-7011, or you can try the website at the address on the screen to troubleshoot your problems. The slides for today's presentation are available in PDF form in the handout section of the webinar control panel. Additionally, they will be posted to the CSFA website shortly. We also encourage you to submit questions during the broadcast using the box marked questions near the bottom of your control panel. You may submit questions at any time as they come to mind. Time permitting, we will be taking as many questions as we can at the end of our session during the Q&A period. Additionally, if you would like access to live captioning during this program, click on the link in the chat section at the bottom of your control panel or copy and paste the address on the screen and do a second web browser. Finally, CSFA will make this recording available on our website for replay as soon as possible.

Slide 4 – California School Finance Authority **10:41**

Katrina Johantgen: The California School Finance Authority was created in 1985 when then State Treasurer, Jesse Unruh, had a vision to expand the powers of the Treasurer office. He created boards, commissions and authorities to meet various infrastructure needs throughout the state including educational and health facilities, pollution control and advanced transportation, and alternative energy. CSFA was created to finance educational facilities and working capital on behalf of school districts, County Offices of Education, community college districts, and most recently, nonprofit charter school borrowers. As a governmental entity CSFA is governed by a three-member board with two of those members being statewide elected officials. As mentioned earlier, the Authority is chaired by State Treasurer Fiona Ma, with Superintendent of Public Instruction Tony Thurmond and Director of Finance Keely Martin-Bosler serving as members. CSFA currently administers ten active state and federal debt and grant programs and since 2002 the Authority has disbursed over $4 billion to K-12 schools.

Slide 5 – CSFA as Conduit Bond/Note Issuer **11:55**

Katrina Johantgen: As drafted, the CSFA act provides broad statutory authority to issue short and long-term debt on a standalone or pooled base buy. CSFA is set apart from other conduit issuers due to its state-level intercept mechanism which can be found in section 17199.4 of the Ed code. The intercept mechanism allows borrowers to make payments at the state level. Borrowers notify the state controller to make payments on behalf of investors to bond trustees. This ensures timely payments and improves investor security and credit quality. Additionally, CSFA is supported by the State Treasurer's Office Public Finance Division. As agent for sale the public finance division oversees all bond and note pricing activity and other tasks to ensure public borrowers are properly protected throughout the sometimes-confusing issuance process, as well as ensuring quality pricing and cost containment. The State Attorney General's Office serves as issuance counsel on all financing issued through CSFA. Notably CSFA holds monthly board meetings and has the flexibility to hold special meetings if financings are time sensitive. For nonprofit borrowers it conducts state-level, no-cost TEFRA hearings. As an entity, CSFA is mission-driven not transaction-driven. All debt issued through CSFA is placed with investors, commensurate with the credit quality set forth in our bond issuance guidelines. CSFA has competitive low-interest and administrative fees for nonprofit borrowers and public agencies. The full fee schedule is available on our website. And lastly, CSFA's consistent leadership, top financial adviser support, and Treasurer's Office backing, provide institutional knowledge and area expertise unique to the Authority over other conduit issuers.

Slide 6 – Conduit Issuance Transaction Highlights 13:55

Katrina Johantgen: Since 1999, CSFA has issued over $1.7 billion in short and long-term debt on behalf of school districts and nonprofit borrowers. Of the 93 transactions closed, 18 were working capital note financings totaling almost $200 million, while 75 financings were issued on a long-term basis. CSFA has been awarded three federal grants totaling $37 million to enhance debt issued through the Authority. One of these grant programs has leveraged an $8 million grant eighteen times resulting in almost $150 million in issuance. More recently, CSFA was issuer for school district financing utilizing successor redevelopment agency revenue to construct a new district transportation facility. CSFA was recently named issuer for community college student housing financing that will come to the board this fall. And just a quick fun fact, in 2010, CSFA received the Bond Buyers Deal of The West Award for an innovative qualified school construction bond financing.

Slide 7 – Speaker Introductions 15:04

Katrina Johantgen: At this time, we are thrilled to introduce our panel of experts. John Gray is President and CEO of School Services of California. Mike Fine is CEO of the Fiscal Crisis and Management Assistance Team or FCMAT, and rounding out our panel are Annette Yee and Mike Kremer, Managing Directors for Montague DeRose and associates. At this time, I will turn it over to John Gray. John.

Slide 8 – Proposition 98 Minimum Guarantee 15:32

John Gray: Thank you, Katrina. Mike Fine is going to assist me with advancing the slides. So, Mike, if you could give us the first slide. So why are we talking about cash deferrals? We haven't had to deal with these since the last recession. You'll remember when Governor Brown got into office, one of his commitments was to buy down that wall of debt. Well a significant portion of that were the deferrals we suffered during the last recession. So why are we talking about them now? I think the Treasurer and Jack O'Connell did a good job setting it up. Yes, we have that global pandemic. It's impacting our national economy, the world economy and more importantly for us, our state economy. And as a result, Proposition 98, which funds K-14 education is also taking its hit. Just a few months ago in May, faced with this budget hole, our Governor proposed a budget that would balance the budget and stay within the Proposition 98 guarantee. And just a few months ago, we were looking at some pretty significant cuts to funding for school districts and community colleges. You might remember we were talking about a 10 percent cut in general unrestricted and general fund revenues. We were talking about categorical programs being cut in half. And yes, a component of it, with the May revision, was some deferrals. Well, through the negotiations to the final budget, we got a compromise. That's what this chart right here represents. Instead of a giant cut to some of our categorical programs, and a giant cut to the local control funding formula, it was a different solution. Part of it was withdrawals from the public-schools system stabilization account. There were some reductions in funding. Remember, you're not getting a cost of living adjustment. But the primary source to bridge the gap was deferrals, increasing deferrals significantly from the May revise. So, what we will be focusing on today is those cash deferrals.

Slide 9 – Budget Deferrals 17:51

John Gray: So, if you're in a school district or a community college, a lot of your stakeholders are saying, you know, we dodged a bullet, right? We are not going to have that dramatic cut in revenues. But instead, they've handed you another issue you need to deal with, and it's just as important, but it's solvable. But you need to pay attention, know how it impacts you, and be proactive. You're going to hear terms each year as the budget comes out. Is it a budget deferral? Or is it a cash deferral? For your purposes, you need to think of just the cash deferrals, meaning what is the cash that I'm going to be shorted during a period of time. So simply stated, a cash deferral is when you're owed an apportionment from the State of California, your state aid, and the state says, "I'm not going to give that to you right now, but you can go ahead and book an accounts receivable, so you can recognize the revenue, but I'm not going to give you the cash until later." Most of your stakeholders are looking at cash deferrals as well. I didn't get hit in revenue. But if you're the CBO, the Superintendent, the Chancellor, governing board members, you need to pay attention to that, and that is cash. The way businesses go out of business in private industry is they run out of cash. Same thing applies for school districts and community colleges. There's basically three ways you can increase cash. One is you can increase revenues, think of a private company: You can increase sales, raise prices. But as a school district or a community college, you don't have a lot of flexibility in that area. The rates are determined by the state. And the number of students you serve is the other factor in there. So that's not going to be your solution, just deciding to raise revenues. The other way you preserve cash is to cut expenses. Well, the amounts of these deferrals are so significant, it's hard for me to imagine any district or community college having enough expenditure cuts to mitigate the cost entirely. So those are the first two options. And the third is to borrow money. That's what the focus is going to be on today. What are those options and how do you manage them. So, the different between a budget deferral and cash deferral: the cash deferral is what directly impacts you. The budget deferral--think of that as the state and how they're looking at the problem. The best example was the deferral we just had recently, when we deferred cash from June to July. They counted the budget deferral as $1.85 billion, but you had the full cash deferral. So, the whole $4.38 billion was the cash deferral. So, as you think about this terminology going forward, remember it's the cash deferrals that impact you. The budget deferral is how it impacts the State of California.

Slide 10 – Diminishing Cash as a Portion of Fund Balance 21:02

John Gray: This next slide that I'm going to show you rather quickly, this came right out of a school district's stats report during the middle of the great recession. Common wisdom in a school district as most of your stakeholders are thinking, is that as long as we have an ending fund balance, we're good. And I would agree in most times. During normal times, when cash isn't being deferred, and you have an ending fund balance, your cash isn't exactly that balance, but it can be pretty close.

In this example right here that I'm showing you, you have two numbers circled. This was a district with about a $100 million budget. They ended the year with about $17 million in fund balance. You can see that number circled at the bottom. But look at their cash balance at the top. They actually had negative cash. That was the result of the cash deferrals that occurred during that time period. So for this example, they probably had money in other funds, but it shows you the impact to your budget. So, fund balance is good. You need to maintain that fund balance. But when we're talking about deferrals, it isn't cash. And most of your stakeholders don't spend any time on the balance sheet. If you think about it, during normal times if you have good systems, good controls, you're reconciling accounts, you have checks and balances, you have to maintain and watch those accounts on the balance sheet, but it isn't as critical as it is going to be now. You don't want to run out of cash.

Slide 11 – Deferrals and Cash Flow 22:46

John Gray: So, the next slide, so this was the first deferral, and by the way, it's in the rearview mirror for almost all of you. And so, we had a $4.23 billion deferral. In June of 2020, you booked accounts receivable for your state aid in 19/20 but you didn't actually receive the cash in July. And so, this is the example where I'll highlight the difference between a budget deferral and a cash deferral. The state talked about it as a budget deferral of $1.85 billion, but they deferred all of the cash, $4.23 billion. They didn't just take part of your apportionment; they took all of your apportionment.

Slide 12 – Deferrals and Cash Flow 23:38

John Gray: Next slide. So what did they take? Well, if you're familiar with how you receive your funding, you receive your funding from various sources: You get state aid, meaning money from the State of California, you likely get property taxes, you might have an education protection account. The deferral specifically focus on that state aid, meaning the state aid that you received for things like the local control funding formula, special education and so on. What is not impacted are your local property tax collections. You will continue to receive cash based on your local property tax collections. And although the EPA account dollars are jumping all around, that is not part of the deferral. It's that state aid portion that gets deferred. Knowing your balance between how much state aid I get, and how much property taxes and other funds I get, will determine the amount of your cash shortage. If you're heavily reliant on your state, you're going to have bigger deferrals.

Slide 13 – K-12 Deferrals 24:45

John Gray: Here's a depiction of the deferrals that were in the adopted budget. A couple of things, they're ongoing. And they are significant. If you look at that first deferral, February of next year gets deferred all the way to November of the following year, the following fiscal year. That's February, all the way to November. And then you can see March is deferred all the way to October, April to September, and so on. The deferrals are significant. And it's going to require most districts to borrow one way or another, whether it's internally or from another state agency, or if they have to actually go out and possibly issue tax revenue anticipation notes. Now, by the way, there's a provision that if federal dollars come in, a huge portion of these deferrals would be bought out, about half of it. But again, we're relying on the federal government for that. For your purposes, I don't believe you can count on that right now.

Slide 14 – Community College Deferrals 26:00

John Gray: Next slide. The next slide should be community college deferrals. Now, community colleges also are going to have their apportionments deferred, their state aid portion, and Mike, could you tell us little bit about what's different about community college deferrals.

Mike Fine: Thank you, John. Community college deferrals--for our community college audience members, you know this very well, Title V provides apportionment schedules that are weighted a little heavily towards the first part of the fiscal year as opposed to the K-12 schedules that are a little bit more even across the year. So, the deferrals that begin in February: to achieve that full $1.45 billion may require the Chancellor's office to defer not only your principle apportionment, but a portion of your categorical funds as well to achieve the total. It's just in the anomaly of the monthly apportionment schedule as compared to the total dollar value that is slated in the budget. So just a little bit different scenario for community colleges.

Slide 15 – Deferrals and Cash Flow 27:27

John Gray: Thanks, Mike. Next slide. These are our calculations that we did independently at school services. While we've checked with the state, these are not official numbers. These are our numbers. But we think they're really close. We're trying to show you what the impact would be on your state aid portion of cash during the months of the deferrals as presented on that prior chart. I'll go with February 21. Remember, that's being deferred all the way to November of the following year. Now, about 90 percent of K-12 districts have what's called a 559 schedule on how they receive their apportionments. So this would be applicable for about 90 percent of the districts in the state. The other 10 percent have a different schedule, and we've done a separate estimate on that schedule. But I'm going to only show you one for this webinar. You can see that in February, you should get about nine percent of your annual apportionment. We believe about 45 percent of that will be deferred. And as a result, you're going to receive about five percent of your apportionment. And you can see as it goes all the way down to the bottom in June when the entire apportionment is deferred.

Slide 16 – Apportionment Deferrals 28:54

John Gray: Next slide. So that creates some issues out there--the same issues that we talked about But at the end of the day, we just march forward. The deferrals are going to impact districts differently. As I mentioned earlier, low property wealth districts are going to get hit hardest. You are going to have to borrow more because a bigger portion of your apportionments are from state aid and not property taxes. And also recognize that when things get better, and they will, and Prop 98 recovers, often times the first call on those dollars are to restore these deferrals before we start seeing new money in public education. Next slide.

Mike Fine: I would offer one thing, that this is exactly the same case for community college districts, except that as a component of LCFF it's a component of the student-centered funding formula. But the low wealth/high wealth issues are exactly the same.

Slide 17 – Deferrals and Cash flow 28:54

John Gray: Thank you. So, what's available to you out there? I'll just do just a quick update here, and then Mike and Annette are going to go through more detail on this. Think about it as your family budget. Think about your employer coming to you and saying, “The good news is the company's having some issues, but we are going to cover your salary regardless. We are not going to reduce your salary. However, we are not going to give you your next three paychecks because we need to get through a rough period. And on that fourth month we are going to give you all three of those paychecks plus the paycheck you earned in that month.” At first, you’re thinking what a relief, I'm not being cut. Then you start thinking, wait a minute, each month I have a mortgage payment or rent payment. Think of your payroll in a community college or K-12 district as maybe a car payment, that sort of thing. And you've balanced your budget knowing what your monthly paycheck is and what the expenses are, and you have the cash. And now you know you’re going to go for three months without any cash. I'm going to get it that fourth month, but how do I get through these three months when I'm not receiving a paycheck. The first option we discussed, think of your home budget. Maybe you have a savings account. Think of that as internal borrowing. Maybe you have money or cash in another fund that you can borrow. If you don't have that option, maybe you ask your mom, dad, your mother-in-law, father-in-law, cousin, whatever. Think of the County Office of Education and the County Treasurer. Maybe you can borrow money from them. But remember, they only have so much cash themselves. And you're not the only district or community college in that area. So that might not be a way to solve your cash problem. And that leaves you with your final option is you go out and borrow. You go to the bank and say here's a letter from the district, I'm going to get four payments in four months so I'm good for the money I just need cash to help me through this tough time. Next, Mike and Annette are going to talk a little bit more specifically on the mechanics of how that works.

Slide 18 – Deferrals Exemption 32:23

John Gray: Next slide. There is a deferral exemption. My recommendation is not to count on it. You would still have to go through all the same motions you would have to do to look at your internal borrowings, your external borrowings. Yes, there is a deferral exemption. It's capped at a total dollar amount. You must demonstrate that you have no other option. And if we're not able to borrow cash, you would have to show that you need a state emergency loan. I'm sure Mike has comments on that. But I would say to you, I would not rely on this as your ticket through this. I think you're going to have to use the same due diligence as if you are going to have to borrow yourself. Do you want to add anything to that, Mike?

Mike Fine: I would agree. The threshold here is pretty significant. You have to exhaust your borrowing opportunities that you just laid out, John. And you would have to basically almost qualify for an emergency appropriation, which most of the audience understands is another term for state takeover of your LEA or your community college. I do want to point out that the applicable numbers for community colleges show there's a $30 million maximum per month for all community college districts. Under limited circumstances that can be raised to $60 million. You have to give the Chancellor's office two-month prior notice that you would have a hardship for K-12, you have to determine that hardship for all months in January. So, your application, if you will, to your County Superintendent and the Department of Education, has to be in January, and then for the community colleges your application to the Chancellor's office has to be two months prior to the deferral date.

Slide 19 – Deferrals and Cash Flow 34:22

John Gray: Thanks, Mike. So, what should you be doing now? You should be reconciling cash. You should update your cash flows each month, and if projections aren't coming in as expected, you need to find out why, readjust those cash flows, and balance those balance sheet accounts on a monthly basis.

Slide 20 – Cash Concedes His Crown 34:45

John Gray: So that leads us to this final slide of mine. It's a cartoon that we actually pulled from the last recession. And we've always talked about cash is king or cash shows no mercy. But during the last recession, school districts and community colleges weren't going to be able to get through their operations each year without ultimately going out and borrowing money. So, the king here, cash, is handing his crown to credit. Mike, these next slides are yours.

Slide 21 – Key Steps in Preparing and Monitoring 35:15

Mike Fine: Thank you John and thank you to the Treasurer and to Jack O'Connell for participating as well. And for the Treasurer stepping up here and helping each of you meet your cash flow needs. I want to take a slightly deeper dive into John's last slide before his cartoon about the key steps in both preparing on the left side and monitoring cash. The monitoring cash which we do somewhat well is completely dependent upon how good our cash forecast is. On the preparation side, I'd remind all of the K-12 districts and charter schools out there that cash flow is one of the three critical reports you must prepare and file with your County Superintendent, which County Superintendents then file with the state. In addition to the budget, which is critically important in the multiyear financial projection, cash flow is equally important. And most of you know that FCMAT provides some sophisticated software free to you, called Projection Pro, as well as other tools to you to help you do your NYPs and your multiyear cash flows as well. John's alluded to this, you must balance your cash flow to the budget. And you do that ultimately through the accrual process, and we'll talk more about that in a second. Your cash flow forecast is going to be based on historical information. Apply current budget details to that. You're going to update it for any new appropriation and apportionment schedules, and then on the expenditure side, with respect to any new or planned expenditures. Salaries obviously are a little bit more even throughout the year, but non-salary expenditure items may vary widely from being somewhat equal month to month to having spikes in them. You must at a minimum always be looking at 18 months, the current year plus the first half of the next year or as you progress through the year, you are on constantly updating this. Twenty-four months is better in the kind of circumstances that we're in right now. And obviously as you prepare cash flow, you have to look at all funds. This is critically important. On the monitoring side of the house, timeliness. So monthly reconciliations and for some weeks in the year, those will need to be done weekly. You need to post your actual cash transactions and reconcile them. And as John's already alluded to and Annette will certainly bring home here in a few minutes, you can't ignore your balance sheet accounts, your accounts receivables and accounts payables, both have direct impacts on cash. Again, each time that you're monitoring and updating as each month goes by in the fiscal year, you are adding that additional month, you are taking an updated look out there at that 18 to 24 month view as your actuals are posted. And you are updating just as you do your budget on a regular basis. You are updating your cash flow for new information.

Slide 22 – What is Cash and Cash Flow? 38:39

Mike Fine: For community colleges, the reference here to SACS on that previous slide is your 311 reports and your quarterly updates. Cash flow is not a component of those reports. It is a good practice, but it's not required to be filed with the Chancellor’s office. Certainly from a best practice standpoint, the same advice I just gave on K-12, both for preparation and monitoring, you want to follow that on the community college side too. I want to pause for a moment and make sure we understand clearly the definitions of these terms we are talking about. We throw around cash and cash position and cash flow. Cash is what really happens. It's the real world. In many respects, as much as we depend on budgets as a planning and accountability tool, a budget is kind of the make believe world. It reflects what is anticipated to happen. But cash is a direct result of what actually happens. Cash flow is that difference on a periodic basis, typically monthly, between the available cash at the beginning of that period and the available cash at the end of that period. The actual inflow and outflow of funds is what makes up our cash flow. Cash position is the balance at the end of the period. It may not always be the end of the period. You may want to know what your cash position is on a given day, and you want to have updated information to be able to answer that question. And for almost everybody out there, some charters would not follow this, but for community colleges and for traditional K-12 districts, certainly your County Treasurer as well as your own Treasurer are key in helping you reconcile and balance cash. As John's alluded to, when we have negative cash positions, whether those are forecasted or actuals, those can be mitigated by borrowing, which is our real focus of this time today.

Slide 22 – What is Cash Insolvency? 40:51

Mike Fine: What is cash insolvency? John gave the example of private industry. But the same term applies to our K-14 education community in California. The definition of an insolvent school district or community college focuses on cash. Doesn't focus on budget. It's when you have payroll expenses that exceed your available cash and you have exhausted all of your borrowing--all of your options to borrow funds. It's a function, certainly a deficit spending, erosion of fund balance, sustained negative cash flow, such as deferrals, but you must keep in mind that as the cartoon illustrated, cash is, in fact, king, and as my predecessor Joe Montero has always said, cash shows no mercy. You either have it or you don't have it. And you've not done your planning adequately, you may find yourself in a position of not having it. Cash insolvency for us is the end of the road. It's the end of the game. And that is usually the trigger point for an emergency appropriation and apportionment from the state, which also results in changes in governance, where your Superintendent, President, Chancellor and your board of trustees or governing board has their authority to govern removed, and somebody else comes in and starts making those decisions for you.

Slide 24 – Budget vs. Cash Flow 42:16

Mike Fine: So clearly this is something that you want to avoid at all costs. It's important to understand the distinction between budget and cash flow. We've thrown those terms around and alluded to this, but I want to take a minute here for a little deeper dive. Budget's always this annual number. Fiscal year July 1 to June 30. It is, again, a little bit of the make believe world in it is what we anticipate to happen. Every day of the fiscal year that passes we rely less on budget and more on our actuals or our accounting kicks in in this real world. We anticipate revenue and sources of revenue. We anticipate expenses and uses of our funds. And certainly, what our reserve balances are. How we acknowledge that revenue follows the California school accounting manual for K-12 and generally accepted accounting principles regarding accruals and the recognition of revenue. For K-12 districts, obviously budgets with cash flows are due to your County Superintendent July 1. There's a 45-day revision, which is approaching very quickly here. And then you do a minimum of two updates during the year through the interim report cycle. They are all fund specific. For our community college colleagues, you know that your initial budget to the Chancellor's office isn't due on the 311 forms until October. And then you do quarterly updates. So the timing is a tad different for the community colleges. When we distinguish budget from cash flow, cash flow breaks down that annual budget into months, periods of times, whatever makes sense. In some cases that would be weekly, depending on what your actual cash flow is on a given day. At given times of the year you may refine your forecast down to weeks based on actual receipts and disbursements, and your available funds in the county treasury. With respect to the forecasting, it's annual data with time factors such as apportionment schedules built in. Cash and budget are equalized through the receivables and payables. While it's critically important to pay attention to your balance sheet accounts because that's where receivables and payables show up, receivables and payables don't represent revenue and expenditures and reserves. They represent assets and liabilities on that balance sheet account, and they play an integral role, as Annette will walk you through in your cash forecast. Requires monthly updates so as we've alluded to often now, cash flow, not budget updates, but cash flow is the first sign of fiscal distress in a district. You also have to remember that cash flow is a little different than budgets. Budgets are fund specific, cash flow, while it's tracked by fund, can be comingled, and as we are going to discuss here in a second, can be exchanged between funds on a temporary basis.

Slide 25 – Sample Cash Flow Prior to Borrowing 45:32

Mike Fine: I'm going to introduce you to a sample cash flow, the same format is going to be used through the rest of this morning's webinar. Annette will take you through details. I want to point out in the example that's before you here, those are months across the top. We don't start until January, and then we go through December, almost like a calendar year. But you'll actually be doing this cash flow as a fiscal year. And the dark line there in the center represents the split between two fiscal years. And Annette will walk you through those details more in a second. On the left side, obviously your sources and uses of items. I want to point out here that there's no borrowing, there's no due to, due from, there's no TRANs issues. Those are the blue lines, two-thirds of the way through. I want to draw your attention to May and June, where we have deficit cash positions, $3.27 million and $9.77 million. Those become the problem that we're trying to solve for in our discussion today.

Slide 26 – Internal Cash Borrowing 46:43

Mike Fine: I want to first turn to the topic of internal cash borrowing. Alternative liquidity is a fancy term we use that says what's the available cash resources and other funds. And some of these funds, the majority of the funds, are going to be internal to the district, held in the county treasury. But there may be occasion where some of these other accessible funds are outside the County Treasury being held by a fiscal agent. Whatever the case for you, I think the application here still applies. Borrowing cash from one fund to satisfy the temporary shortfalls in another fund is very commonplace. I emphasize though some keywords: One is borrowing and one is temporary. Cash transactions are that. These are not budget transactions. Borrowed funds by law, shall not be available for appropriation or considered income to the fund that's borrowing them. It's not about covering your budget deficits. It's about cash shortfalls. If you are going to cover budget deficits with funds outside the general fund, as an example, that's a different transaction, and that's not our focus today. Certainly for K-12 there are limits around the amount you can borrow and the timelines that are applicable. Some of those limits and timelines apply to community college districts when you look at outside the internal borrowing, but they don't apply to the community college districts on the internal borrowing. You have quite a bit more flexibility there than K-12.

Slide 27 – Internal Cash Borrowing 48:21

Mike Fine: These two ED code sections are specific to K-12. It is not comparable EDd code for our community college partners. 42603 is the long-standing authority to temporarily borrow cash, transfer funds from one fund to another fund for the payment of obligations. It requires repayment in the same fiscal year or subsequent fiscal year when certain conditions are met. And under long-standing provisions you cannot borrow more than 75 percent of the fund balance in the sending fund. So if the general fund is going to borrow $1 million from special reserve funds for K-12 district, you have to ensure that that million dollars is 75 percent or less of the special reserve fund's balance. We have a special provision which was part of the budget act's flexibility for K-12. It's only applicable to the current year and next year. It expands the authority to increase that borrowing from 75 percent to 85 percent. However, to do so requires a resolution of approval by your governing board, subsequent to a public hearing. So there are some extra steps in the process. A K-12 district may choose to follow 42603, it's still applicable, or you may choose to follow 42603.1 if you need the additional ten percent. The only distinction between the two is that the board needs to approve it by resolution, subsequent to a public hearing. Otherwise the repayment terms and timelines remain the same. Again, for community college districts, there are no limits except those that you have imposed locally through governing board policy. Your best practice very candidly, is to follow the same provisions in K-12 at the community college level. You want to get your governing board's approval. You should set some maximums, and you should set a very clear timeline for the repayment. Those are important best practices.

Slide 28 – Internal Cash Borrowing 50:41

Mike Fine: I want to provide a slight caveat on internal cash borrowing. The ED code does not limit inter-fund borrowing to particular funds, however, we want to caution you along with our partners at CDIAC, that borrowing from bond proceeds is not always advisable. And under some circumstances may clearly be inappropriate. But this ultimately is a local decision that you need to make. You need to make it in consultation with your bond counsel, and have full disclosure, not only to your bondholders but also to your community on how you are using those bond proceeds, even on a temporary basis. I understand that this topic is certainly subject to debate. But my emphasis here is this is a local decision. But you need to take and perform some extra due diligence with respect to borrowing bond proceeds.

Slide 29 – Sample Cash Flow with Internal Borrowing 51:46

Mike Fine: Again, I want to turn to our sample cash flow. But this time it's with internal borrowing. So that middle blue line, you can see that in attempting to solve our problem, we've now followed our practice here of doing some internal borrowing. We borrowed $500,000 from adult education fund, and $3 million from special reserves for capital projects funds, and added $3.5 million in April as a way to partially offset our May and June deficit. You can see that it wiped out the May deficit that originally was there, although it's left us with very little cash; certainly below the margin most of us would recommend. But we still have a deficit for June. So we still have a problem to solve.

Slide 30 – External Cash Borrowing 52:41

Mike Fine: And that's when we turn to this idea of external borrowing. I want to remind everybody that there are a number of choices for external borrowing. County Superintendent of schools have authority to loan school districts and community colleges funds. They may also approve conditional advanced apportionments of state funds. The code sections that are listed there are for K-12. There are comparable code sections for community colleges, 85221 and 85222. The County Treasurer, who is the Treasurer for a school district and community colleges in that neither of those entities have their own treasury functions, they are completely reliant on the County Treasurer. The County Treasurer also has authority under certain timelines and maximums both in the constitution and the ed code, to issue advanced apportionments to LEA's and community college districts. The authority there listed 42620 for K-12, the comparable authority for community college districts 85220. Finally, as John's alluded to you may turn to the financial markets. Most specifically for short term cash flow needs and working capital you would use a TRAN as we've defined, a tax and revenue anticipation note. With that I'm going to turn it over to Annette and she'll walk you through some of the details related to TRANs and TRANs sizing and issuance. Annette.

Slide 31 – Tax and Revenue Anticipation Notes (TRANs) 54:17

Slide 32 – TRANs Issued for FY 2020-21 Deferred Apportionments 54:19

Annette Yee: Thanks, Mike and John. And thanks to the Treasurer for providing this opportunity. Before I start talking about TRANs and cash flows, I want to provide a little bit of background about myself. My name is Annette Yee, and I work for Montague DeRose and associates. We are the municipal adviser for the CSFA pooled TRAN program for K-14 districts and County Offices of Education. We also advise CSFA on pooled TRANs for charter schools, otherwise known as the advances on state aid payments or ASAP program. I helped create the Los Angeles county pooled financing program, back in 1985, to assist districts with their financing needs, and I've worked on it ever since. By pooling districts together in a financing, we are able to reduce cost for each district. These were the first pooled financing programs created for school districts in the state. I've also served as a school board member at Carmel Unified for the past 26 years. Today I would like to talk more about TRANs and why they might be particularly important to districts during this COVID-19 pandemic and the accompanying recession. Having completed at least one TRAN financing every year since '89, our advisory team is experienced with these tools and are ready to help you now as we work through these tough times. In my remarks today, I will be talking about issues that relate to K-12 districts, community colleges, County Offices of Education, charter schools and other LEAs; although the example comes from a K-12 district. Understanding and monitoring cash is critical, especially under current circumstances. Many districts in the state may run out of cash in their general funds this year because of the deferral of state aid revenues starting in February. If a district runs out of cash, they might require a state loan, and the services of Mike

Fine and FCMAT. We are here today to help your district avoid that terrible situation. As John and Mike discussed, there are a number of ways to help with your general fund cash flow. I'm going to focus on TRANs today. Trans are issued to even out temporary cash deficits caused by uneven receipt of revenues such as from property taxes or this year by deferred state aid. TRANs cannot solve structural budget deficits. A tax-exempt TRAN will have a lower borrowing cost than a taxable TRAN. Investors are willing to accept a lower interest rate because they won't pay taxes on that investment. We can help you with a taxable TRAN if you need one, but here I will be focusing on tax-exempt TRANs as they are much more common. There are rules associated with issuing on a tax-exempt basis. One such rule is that the cash flow deficit must be met within six months of issuance. Another is that repayment must happen within 13 months. With the state deferrals, it is likely that districts will be at their cash low point at the end of June 2021. Since that cash low point must be met within six months of the TRAN issuance, this means the TRAN to assist a district with a cash flow shortfall due to the state aid deferrals may not close until the beginning of January 2021. Because the deferrals are scheduled to begin in February 2021, we anticipate closing the CSFA K-14 districts TRAN pool by late February. This TRAN is known as a cross fiscal year TRAN, because it will be borrowed in 2020/21 but not be repaid until fiscal year 21/22. In case you need funds sooner than February 2021, we are also planning a November pool for those districts that are having cash flow issues prior to the deferrals. You may have already attended webinars about cash deferrals or even about cash flows and cash flow management. We will continue the discussion here about the monthly cash flow that you will be preparing to help you determine if your district needs to issue a TRAN, and if so, how large it will need to be. Charter schools will not need to prepare cash flows to participate in the ASAP program, but you may want to listen in as this scale is one that might be useful to learn.

Slide 33 – K-14 Districts TRAN Pool – Summarized Cash Flows 59:51

Annette Yee: Here is a very high-level summarized TRAN cash flow for a school or community college district. This is the cash flow for the same district that Mike Fine showed you earlier to show you inter-fund borrowing. In your actual cash flow, you would have line items from major object code categories. We have simplified the cash flow to illustrate the big picture ideas. I'm just giving you more of a cash flow 101 and continuing the cash flow story for this district. Cash flows usually cover fiscal years from July through June as Mike mentioned. And they will tie out to your district's budget. For this presentation, we are showing you the calendar year cash flow from January through December so you can see the effects of the cross fiscal year TRAN all on one page. As Mike mentioned earlier, the heavy vertical line distinguishes between June and July to delineate the end of this fiscal year and the beginning of the next. A TRAN cash flow is done only for the district's general fund. Let me walk you through this sample. As you can see from the top of each column, it shows monthly entries. The idea is to track cash over time for the district. Any numbers that are in parentheses are negative or reductions in cash. In any month with a negative ending cash balance, the district needs to find a cash source to supplement the general fund for that period. In this example you can see on the bottom row that the district ends with a negative cash balance in only one month, June 2021. You may recall from Mike's presentation that the district initially projected being negative for both May and June but interfund borrowing took care of the

May deficit. I will be showing shaded or highlighted cells to draw your attention to the appropriate places on them.

Slide 34 – Summarized Cash Flows 1:01:54

Annette Yee: Here the highlighted rows show the income statement. These rows display the cash projected to come into the district each month from revenues, and cash out of the district when expenditures are made. We'll be coming back to these rows in a few moments.

Slide 35 – Summarized Cash Flows 1:02:14

Annette Yee: This highlighted section represents changes in the balance sheet of the district. Those changes must be included in a cash flow because they affect your district's cash. For instance, when funds are received, your cash will increase, and your accounts receivable will decrease and cash paid out as accounts payable are settled, which reduces cash. Accounts receivable are a part of current assets and accounts payable are incorporated under current liabilities. Even if an item is not attributable to the current fiscal year, it still can affect this year's cash. This is the most complicated part of a cash flow to understand. The key is to remember that anything that will increase or decrease the cash of the district should be included in the cash flow. That is why the balance sheet is an important component of the cash flow.

Slide 36 – Summarized Cash Flows 1:03:17

Annette Yee: Next let's look at the cash balance lines. At the top of the chart the beginning cash balance displays the cash at the beginning of the month. The $21 million shown in January 2021 is a carryover from the December 2020 ending cash balance. Toward the bottom of the chart, the net change in cash entries are the revenues less expenditures from the income statement, plus the balance sheet items for each month. The ending cash balance is the beginning cash balance plus the net change in cash and is carried forward as the next month's beginning cash. The ending balance in January is the beginning balance in February. And February's ending cash is March's beginning cash and so on. The very bottom line in the cash flow shows the ending cash balance for the district if they do not issue a TRAN. It is just the ending cash balance, which is the line just above, less any entries for the TRAN. Let's stay on this slide for a bit longer to have a brief discussion about how to do your cash flow projections. Even if you are a K-12 school district and complete cash flows as part of your interim reports or budget, you may not feel expert in doing this. If you are a community college district, a charter or other LEA, you may never have prepared a monthly cash flow. The place to start is your district's past history. Go back at least three years to check your actual monthly cash flows, become familiar with how moneys come into and flow out of your district. The best way to predict how your cash will flow in the future is to start with what actually happened in the past. You will then add in any other changes that are appropriate. For instance, if you know that your district gave a raise, the figures in the salary and benefits expenditures lines should be updated. We don't show these lines on this summary cash flow example, but they will be part of a regular cash flow. Similarly, any changes from the past on the revenue side should be included. A big one for this year would certainly be the deferrals.

Slide 37 – Summarized Cash Flows 1:05:33

Annette Yee: Now let's go back up to the principle apportionment and the fiscal year 2020/21 principle apportionment deferral lines so I can highlight these deferrals. Those are the two lines in the blue near the top of the chart. As you can see, we have shown the deferrals as negative offsets of the apportionment that was scheduled to be received in each month. Similarly, we show the deferred revenues received in the next fiscal year to the right of the black vertical line. These deferred revenues are expected to come in from July through November and will be used to repay the TRAN issue. Now we go back down to the bottom line. As you can see from the ending balances, without a TRAN the district starts off with a healthy cash balance, but as the months go on after the deferrals begin, their cash flow position erodes, bottoming out with a negative $6.27 million in cash at the end of June. Even after they have done interfund borrowing as Mike went over with you. This number is known as the maximum cash flow deficit, and we will be discussing it more later. In our example, this district would benefit from a TRAN, and it should size its TRAN to cover that $6.27 million negative cash balance. Because it is difficult to precisely predict cash flow, the tax rules allow a district to borrow more than their maximum projected deficit.

Slide 38 – Summarized Cash Flows 1:07:11

Annette Yee: Now turn your attention to the TRAN issuance row that is highlighted in blue. As you can see, this district has assumed a cross fiscal year TRAN amount of $12 million, with TRAN proceeds received in February 2021. You can also see the repayment of the TRAN starting in July 2021 and continuing through November. These are the negative cash numbers in that blue row to the right of the fiscal year vertical line. The $12 million cross year TRAN received this fiscal year will be repaid in the next fiscal year, because that is when the district will receive its deferred payments. These negative numbers are called the TRANs set aside payments. We have only shown principle repayments here, but the final payment in November will also include interest due. The TRAN itself will mature in December or January, so it has to be paid back by then. The negative $6.7 million deficit highlighted in yellow in the cash without TRAN line is offset by the $12 million TRAN leaving the ending cash balance including the TRAN as a positive 5,730,000 at June 30, 2021. The $12 million TRAN covered the projected deficit with a cushion.

Slide 39 – K-14 Districts TRAN Pool – Summarized TRAN Sizing 1:08:33

Annette Yee: We will now move on to the TRAN sizing worksheet to talk about this cushion and how a TRAN is sized. Take a look at the TRAN sizing worksheet. Now for this example, we have simplified some of the steps in calculating the TRAN size, such as whether the district is a small or large issuer, and other nuances. We will go over these nuances with you when you are doing our actual TRAN cash flow. Despite these simplifications, this sheet gives you a general idea of how a cross fiscal year TRAN is sized. One last thing. The term maximum size is used several different ways in this table. We have highlighted the differences in blue, to help delineate them.

Slide 40 – Summarized TRAN Sizing 1:08:33

Annette Yee: The highlighted line at the top of this chart shows the maximum cash flow deficit from the cash flow worksheet, the negative $6.27 million.

Slide 41 – Summarized TRAN Sizing 1:09:27

Annette Yee: The next line shows the cushion we talked about before, it is called the working capital reserve, and it is generally equal to 5 percent of general fund expenditures from the prior year. This allowance is incorporated into the tax provisions because it is very difficult to predict cash flow with a high level of accuracy.

Slide 42 – Summarized TRAN Sizing 1:09:49

Annette Yee: Moving down the chart, the deficit and cushion are added together. In this example that amount is $14.769 million. Your tax counsel will adjust this amount downward slightly by an amount that may vary by law firm resulting in the adjusted maximum TRAN sizes based on tax rules. In this case we decreased it by 10 percent. The bottom highlighted row displays that amount, rounded to the nearest $5,000, which in this case is $13.29 million. There are three potential determinants of maximum TRAN size, and this is one of them.

Slide 43 – Summarized TRAN Sizing 1:10:30

Annette Yee: The other two potential determinants of the maximum TRAN size are the amount of deferrals that your district receives and the resolution passed by your governing board that authorizes it not to exceed amount. The amount authorized by the board has to be determined well in advance of the detailed sizing calculations. So, the amount that is expected to be deferred can help inform the board resolution amount. The reason why a cross fiscal year TRAN cannot exceed the deferred revenues is because it can be repaid only from the revenues that had been deferred. The repayment includes a small amount of interest, and that interest too must be included in the calculation. In this example, the total amount actually deferred from 2020/21 is $26.1 million and with interest that leads to a maximum TRAN size of a little over $25 million. We use this amount to recommend an authorized maximum size of $25 million, which is very close to the amount that could be borrowed because of the interest costs. The actual sizing of the TRAN cannot exceed the lowest of these three methods of determining maximum size.

Slide 44 – Summarized TRAN Sizing 1:11:41

Annette Yee: The three methods generate maximum sizes of $13.29 million, $25 million and $25.09 million. Those are the lines that are now highlighted in blue. The smallest is $13.29 million, which is therefore the operative maximum size of the TRAN. Of course in other situations, the deferred revenues with interest costs could have been the smallest number or the smallest number could have come from the board resolution. So as I said, in this example, the maximum size of this TRAN is $13.29 million. However, as we showed on the cash flow sheet, the district chose a TRAN size of only $12 million. The district chose the lower amount because it was willing to do more inter-fund borrowing if needed. Borrowing from yourself is the least expensive way to cover a deficit in the general fund. Just remember, in most cases, you must repay such an inter-fund borrowing and there are also specific rules that govern this type of borrowing. Let's turn to one last worksheet that is part of the TRAN cash flow that goes over inter-fund borrowing.

Slide 45 – K-14 Districts TRAN Pool – Alternative Liquidity 1:12:53

Annette Yee: This slide shows what is known as alternative liquidity in the world of TRANs. It displays some of the funds that a district can temporarily borrow from to supplement cash in the general fund. The specific funds on the chart are just examples. You may have other funds that could be used for borrowing, and I should also mention that the fund numbers on the chart are specific to K-12 districts. The numbering system may be a little different in other LEAs. And I should note that community colleges have different rules for inter-fund borrowing as Mike Fine mentioned. If you represent a community college district, we'll work with you on these individually.

Slide 46 – Alternative Liquidity 1:13:36

Annette Yee: Here I've highlighted the balances in fiscal year 2020/21, and you can see they are generally lower than in the other years. This is partially because the district borrowed has $3.5 million from the other funds during this year as Mike showed you. Recall that you must not borrow from any funds that are prohibited from being used for cash flow purposes. Again, Mike went over some of these restrictions in detail earlier.

Slide 47 – Alternative Liquidity 1:14:05

Annette Yee: You can see that healthy amounts remain in each of these funds. For two reasons. First, it is prudent to keep enough cash in the district's other funds to allow the district to operate as needed and to be a further backstop for anything else that might happen to other revenues. And second, as a note on the bottom indicates, you are not allowed to borrow more than a certain proportion from any of those funds. As Mike noted, at least for K-12 districts, the normal limit is 75 percent but this year the district can borrow up to 85 percent of the fund balance if it is taken the appropriate action to raise the limit. This leaves the district an additional cushion to borrow from if necessary. Again, it is cheapest for a district to borrow from its own funds whenever possible. As important as it is to create your cash flow projections as accurately as you can, it is impossible to get them perfect. You should continue to work with your cash flow as time goes on. You should monitor your actual cash flow, your actual revenue expenditures and balance sheet transactions, and as the fiscal year progresses you can gauge the accuracy of your cash flow and adjust it as needed. This will allow you to meet certain requirements of the TRAN, like meeting your deficit target. But more importantly, it will allow you to manage your cash flow more wisely. Now I would like to hand this off to Mike Kremer, who along with Katrina, will talk with you about the plans for CSFA's two pool TRAN programs. Mike served as a municipal adviser to CSFA on various programs for over 15 years.

Slide 48 – CSFA Pooled TRANs – The Essentials 1:16:13

Mike Kremer: Thank you, Annette. I would like to take a few minutes to describe the essential features of the two TRAN pools CSFA is preparing to launch in the near term for the benefit of California local educational agencies, for LEAs. We're looking at page 48. One pool will serve the school districts community college districts and County Offices of Education throughout our state. The second pool will be open to California nonprofit charter schools, including charter national organizations and also non-classroom-based charter schools. TRANs for both will be sold to investors through a rated public offering. There will be no cost to request financing from either pool. Each pool issuance cost or fees will be low with the State Treasurer's office appointing all consultants and negotiating fees to be competitive with other TRAN pools. Let's first discuss the key features of the K-14 districts pool. CSFA will issue one or more series of pool TRANs starting in February to bridge the cash shortfalls caused by the apportionment deferrals. Based on your particular cash situations, districts will have the option to wait, participating in additional series issued later in the spring. CSFA will also issue TRANs to provide short-term financing in November 2020 for seasonal cash shortfalls that often precede the property taxes in December. Whether the TRANs are issued in November, February or April, the maturity date is expected to be by December 2020 or January 2021. We expect the district TRANs to be issued tax-exempt, the interest rate will be based on market conditions and the high grade credit ratings we expect to be assigned each district through a streamlined credit review process. Let's turn to the charter schools TRAN pool. This pool is also referred as the ASAP program an acronym for Advances on State Aid Payments. Unlike the K-14 districts pool wherein the tax-exempt TRAN will be based on projections of monthly cash flows, the ASAP program expects to size each charter school's TRAN using its apportionment deferrals and rating agency requirements. We will not be preparing monthly cash flows for the charter pools at this point. For charter schools to issue a tax-exempt TRAN, there would be significant expense for tax counsel to confirm the school's tax-exempt eligibility. Given the smaller sizes of charter school TRANs, and historically low taxable interest rates, we expect a taxable TRAN to be more cost effective than a tax-exempt TRAN. And thanks to a credit enhancement grant from the U.S. Department of Education used to fund a lost reserve for the TRAN investors, we expect the charter school TRANs to be assigned high grade credit ratings. High credit ratings translate to low interest rates. CSFA plans to issue charter school TRANs starting in February. The TRANs are expected to mature in January 2021. Next slide, please.

Slide 49 – CSFA Pooled TRANs – Steps to Borrow 1:19:33

Mike Kremer: Here on slide 49 are the pooled TRANs steps to borrow. This page outlines the seven main steps to issue TRANs through CSFA after the initial submission of an application. We anticipate this process will take approximately four months to complete. In step one, Districts will prepare monthly cash flows to determine their cash deficit used to size their TRAN, like Annette described earlier. Charter schools TRANs will be sized according to their apportionment deferrals and rating agency requirements. The financing team will provide assistance throughout this process, and will coordinate the rating agency's review of credit materials. In steps two and three, bond counsel and disclosure counsel firms appointed by the State Treasurer's office will draft resolutions, other financing documents, and preliminary official statements or POS. The POS will include information about each district or charter school participating in the pooled TRANs. Disclosure counsel staff will work with each LEA to assemble their section of the POS. In step four, the authorizing resolutions and substantially complete versions of the financing documents and POS are provided to each participating LEA for their board actions. The CSFA board will be provided these same items for board actions authorizing the TRAN issuance. Moving down the page to step five, the TRAN of each participating district will be assigned a credit rating and districts with the same ratings and credit features will be grouped into one series. When the POS is deemed complete by CSFA, the State Treasurer's Office and financing team, the POS will be posted for review by investors. For participating charter school, this process will be similar with the main difference being the TRAN of each charter school will not be assigned an individual credit rating. The charter school TRANs will be grouped into one more series that is assigned a credit rating based on a credit assessment of each participant and the size of the reserve fund. In step six, after the POS has been available for review by investors for about one week, the underwriter will run an order period to set the interest rate for each series of TRANs. The interest rate will be the lowest rate that fully places each series with investors. CSFA's financial adviser and State Treasurer's Office will oversee the pricing process for the TRANs to ensure that the interest rates are fair and on market. Lastly, step 7, within one week of TRANs pricing, the final official statement will be posted to the market. The TRANs proceeds will be provided to each LEA approximately two to three weeks following the TRAN pricing. Next, I will hand off to Katrina Johantgen, CSFA's executive director, who will conclude our program and will begin our Q&A session.

Slide 50 – CSFA Pooled TRANs – Low Cost Borrowing 1:22:35

Katrina Johantgen: Thank you, Mike, for the TRAN pool overview. I just wanted to reiterate and emphasize some of the key features of the proposed CSFA pools. The pools will provide LEAs with TRANs that are secure, streamlined and low cost. Our state-level intercept increases investor security while streamlining the payment process. Our proposed financing team has been selected by CSFA and the State Treasurer's Office based on extensive K-14 TRAN experience and low fees. We anticipate having a CPA firm on hand to assist districts and County Offices of Education with the preparation of monthly cash flows, and our standardized financing documents will provide specific directions for board approval at the local level. The participation of many TRAN borrowers creates significant economies of scale, bringing costs down even further. The costs will be scaled to the TRAN borrowing sides for greater equity among borrowers. An online application portal developed by the State Treasurer's Office and I.T. division will ensure the application process is streamlined while providing applicants with the assurance that their application has been received. We expect the application for both TRAN pools to be available during the month of August. Given the program's investor security feature, CSFA anticipates high credit ratings and therefore low interest cost as Mike mentioned. We expect the larger pool size of the TRANs will attract more investors to reduce the overall borrowing cost. The time is now, 12:28. Mike, we have about two minutes left on our program, but we wanted to open it up for questions. So Mike, have we received questions in the question box.

Slide 51 – Speakers & Contact Information **1:24:24**

Mike Kremer: Yes, we have many questions. I will toss a few out there to the panelists. And those we can cannot address we will follow up in writing after the webinar is complete in the next couple of days.

Katrina Johantgen: Great.

Mike Kremer: Okay. Thank you. This is addressed to John or Mike Fine. I think this was the first question we got today. Can we expect that there will be an August revision to the governor's June 30th budget based on July 2020 tax receipts? This is related to any guidance on ADA funding expectations you can offer.

Mike Fine: This is Mike. I don't expect any revisions except technical cleanup relative to the existing policy.

John Gray: This is John Gray. And I agree with that. Originally we had heard right after the May revision that an August revision was likely. That has since changed, and so we just expect technical issues. But we are not expecting an August revision.

Mike Kremer: Okay. Thank you both. Another question. We are getting conflicting information regarding EPA funding is included in the deferrals. Can you please clarify? Secondly, we are also assuming that AB-602 payments are also included in the deferrals. Again, please clarify.

John Gray: Okay. I believe if you look back to our chart in fact, special ED funding is included in the deferrals, but EPA is not. There are a lot of adjustments happening to the EPA. But based on our read of the budget and budget documents it's not included in the deferral.

Mike Fine: And I would simply say the complications around EPA for 19/20 were that our economy took an unexpected dive off of a cliff, you know, at the beginning of the fourth quarter. EPA funds had been fully apportioned at that point based on the tax receipts we actually had. And so while EPA didn't have a June apportionment, that's because there weren't EPA funds to apportion. It wasn't that they were deferred for most districts. That will be worked through in 2021, obviously knowing where we're at, CDE will work through that. But let me say this again. If we had another midyear dramatic change in state revenues, midyear, a decrease, it could have the same impact that we saw in 19/20.

Mike Kremer: Okay. Thank you both. Another question was should we anticipate some sort of property tax deferrals and if so, should we incorporate it in our cash flows.

John Gray: No.

Mike Fine: No.

Mike Kremer: Okay. An easy one. No. I think this question is for Mike Fine. In your example of the cash flow projection, you're assuming state deferrals for 20/21 only. They are recommending cash flow projections for 18-24 months. Should we assume some state deferral of apportionments for 21-22 as well?

John Gray: Yes.

Mike Fine: Our advice at this point would be at a minimum we would expect them to be flat for the next year. There's certainly some potential to increase. We would expect the fiscal year 21/22 will be the hardest budget year, assuming the economy does begin to turn around or continues its turn around. More complete answer of that is coming after the July 15 tax receipts are fully analyzed. But I think at this point everybody should expect that 21/22 will be a much more difficult year than 20/21. And because of that, I would expect cash deferrals to be a component of 21/22 into 22/23 as well.

Mike Kremer: Okay. Thanks, Mike. We had a couple questions that pertain to charter schools. Are new charter schools opening in 20/21 school year eligible for any TRANs loan? At this point, we do not think so. We think we'll have to meet certain rating requirements as I mentioned. And one of those is that the school need to be in operation for at least one full year, so through 19-20. Schools opening this year will probably not be eligible for the charter TRANs pool.

Katrina Johantgen: Mike, can I interrupt?

Mike Kremer: Sure, please.

Katrina Johantgen: We are opening up our Revolving Loan Fund Program for new charters -- We are opening up a subsequent round in August, and it will be an over the counter funding round so please contact me after the webinar, and we can provide information on that.

Mike Kremer: Okay. That's great news. Thanks, Katrina. Another question: what if the charter school is not for profit because it is a dependent charter, would the TRAN be included with the authorizing district? My answer to that question is probably yes. But it really depends on your specific charter-district relationship. I would contact them directly to inquire about that. One more question that came in a few times was regarding the sizing of the TRAN. There is no requirement that either a district community college or charter borrow the full amount of the deferrals. It will be up to your specific situation how much you feel you need to borrow and then for K-14 pool that has tax-exempt requirements, it will depend on those cash flows and the projected deficit. And that will dictate as Annette went through, the maximum legal-size of your TRAN. I think that's the bulk of the questions. We received a bunch, but many of these were similar. But we will respond to all of them through a posting. Katrina, I'll turn it back over to you.

Katrina Johantgen: Thank you, Michael. And first off, I want to thank the 800 or so participants that took time out of their busy day to spend 90 plus minutes with us today. We know that school leaders have a lot on their plates with school opening in a few weeks, so we appreciate your time today. Thank you Jack O'Connell, for your remarks and Treasurer Fiona Ma, thank you for your wisdom, insight and enthusiasm, and always encouraging us to do better. And to our speakers, John Gray, Mike Fine and Annette Yee and Mike Kremer, I think we can all agree that we're all a lot smarter after hearing your presentation. Last but not least I want to thank our colleagues Robert, Karen and Angela at CDIAC. Under Robert Berry’s leadership CDIAC has partnered with us to ensure this webinar ran seamlessly despite the posting of the handout. We look forward to offering more webinars geared to California's education sector. And I wanted update folks that there should be a link in the chat section of how you can access the webinar as a PDF file. Mike Kremer, is that available to everyone?

Mike Kremer: Yes, it's in the chat section on the go to webinar dashboard.

Katrina Johantgen: Great. Again, it is posted on the CSFA web page where you went to register for this presentation there is a link to the webinar handout. So again, apologies for the technical glitch there, but we do appreciate everybody joining us today.

[end]