The California School Finance Authority (CSFA) Presents:

Putting Deferrals in the Rear-View and the Road Ahead for K-12 Districts and Charter Schools

July 22, 2021 | 10:30am – 12:00pm PT

Moderator: Katrina Johantgen, California School Finance Authority

Speakers: Mike Fine, Fiscal Crisis & Management Assistance Team
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Eric Premack, Charter Schools Development Center
Annette Yee, Montague DeRose and Associates

Housekeeping

- **Slides**
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- **Questions**
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California School Finance Authority

- Established in 1985, CSFA is one of 16 boards, commissions, and authorities within the State Treasurer's Office
  - ✓ Chaired by Treasurer Fiona Ma, CPA, with Superintendent Tony Thurmond and Director of Finance Keely Martin-Bosler serving as members
  - ✓ Administers 12 federally- and state-funded financing programs
  - ✓ Has disbursed or financed over $4.5 billion to California local education agencies since 2002 through grant and debt programs
- A governmental entity overseen by a three-member board which includes two statewide elected officials
- Helps California TK-12 schools, community colleges and county office of education finance the construction, remodeling, and renovation of projects; acquire property; refinance debt; and secure working capital for cash flow purposes
- Conducts educational webinars related to state budget matters, financing opportunities, and student and workforce housing

CSFA Pooled TRANs – State Aid Intercept Notes (SAINs)

- The SAINs offered cash flow financing for the FY 2020-21 principal apportionment deferrals
- 38 school districts and two community college districts located in 18 counties participated in the March and April issues
- The SAINs were secured solely by each participant's pledge of its financed apportionment deferrals
- The financed deferrals are being intercepted by the State Controller and transferred to the trustee for repayment of the SAINs
- Unlike traditional school district TRANs, the credit ratings for SAINs are based on the State's credit ratings -- SP-1+ from S&P and F-1+ from Fitch -- rather than the short-term rating of each participating district
- Avoiding district credit ratings and disclosures in the offering document significantly lowered up-front costs and increased ease of execution for district staff

MARCH SAINs	Tax-Exempt Series A-1	Taxable Series A-2	Taxable Series B	All Series
# of Districts	3	22	15	24
Deferrals Financed	Feb. - May	Feb. - May	June	Feb. - June
Par Amount	$79,095,000	$126,975,000	$31,725,000	$237,795,000
Maturity Date	12/30/2021	12/30/2021	8/30/2021	varies
TRAN Yield	0.14%	0.22%	0.20%	0.19%
All-In Cost	0.49%	0.82%	0.20%	0.65%

APRIL SAINs	Tax-Exempt	Taxable Series C	Taxable Series D	All Series
# of Districts	n/a	16	8	16
Deferrals Financed	n/a	Feb. - May	June	Feb. - June
Par Amount	n/a	$164,665,000	$30,375,000	$195,040,000
Maturity Date	n/a	12/30/2021	8/30/2021	varies
TRAN Yield	n/a	0.22%	0.18%	0.21%
All-In Cost	n/a	0.71%	0.18%	0.66%

CSFA Pooled TRANs – Advances on State Aid Payments (ASAP) Program Notes

- The ASAP Program Notes financed the FY 2020-21 principal apportionment deferrals of 62 non-profit charter schools operating as 40 distinct Borrowers located in 22 California counties
- The Notes are secured by: 1) each Borrower's pledge of its financed apportionment deferrals; 2) reserve funds financed by a federal grant and a portion of Note proceeds; and 3) irrevocable letters of credit issued by Citibank, N.A. and Royal Bank of Canada (RBC)
- The financed deferrals are being intercepted by the State Controller and transferred to the trustee for repayment of the Notes
- The MIG 1 credit rating assigned to the Notes is based on the credit ratings of the two LOC Banks (rather than the creditworthiness of each Borrower)
- The LOCs avoided the need for underlying credit ratings, cash flows and offering document disclosures for each Borrower and made the large TRAN pool economically feasible
- The Notes were issued on March 30,2021 and mature on December 30, 2021

ASAP Program Notes	Series A-1	Series A-2	Series B-1	Series B-2	All Series
# of Charter Schools	50	50	53	53	62
# of Borrowers	29	29	33	33	40
Letter of Credit Bank	Citibank, N.A.	RBC	Citibank, N.A.	RBC	n/a
Par Amount	$15,475,000	$15,475,000	$33,760,000	$33,760,000	$98,470,000
Interest Rate	0.26%	0.26%	0.26%	0.26%	0.26%
All-In Cost	2.86%	2.86%	2.75%	2.75%	2.78%

Speaker Introductions

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Governor’s Budget vs. May Revision vs. Enacted Budget

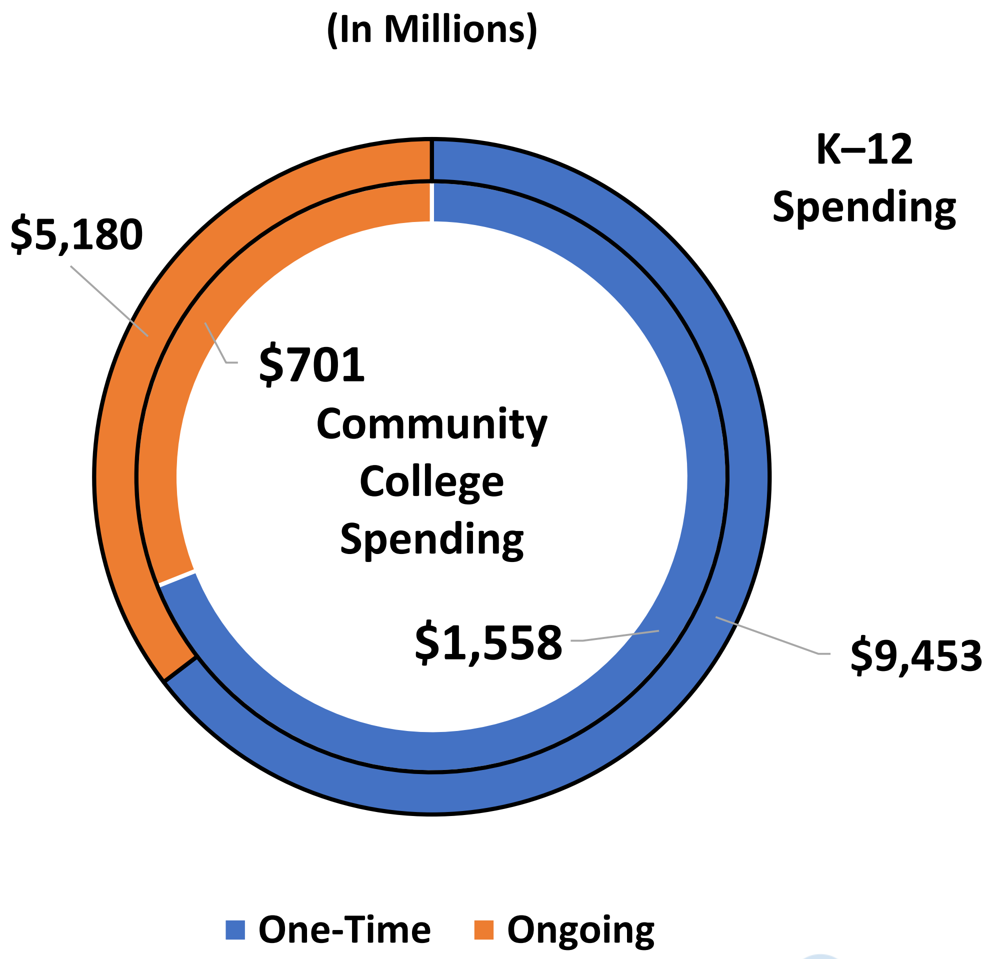
Item	Governor’s Budget	May Revision	Enacted Budget
Local Control Funding Formula (LCFF) Funding Increase	$2 billion	$3.2 billion	$3.2 billion
Proposition 98 Minimum Guarantee 2019–20 2020–21 2021–22	 $79.5 billion $82.8 billion $85.8 billion	 $79.3 billion $92.8 billion $93.7 billion	 $79.3 billion $93.4 billion $93.7 billion
Statutory Cost-of-Living Adjustment (COLA)	1.5%	1.7%	1.7%
Compounded COLA	3.84%	4.05%	4.05%*
“Mega” COLA	N/A	5.07%	5.07%**
Deferral Paydown	$9.2 billion	$10.3 billion	$12.9 billion

*General Child Care, the California State Preschool Program, and Adult Education will receive the compounded COLA

**The LCFF will receive the “Mega” COLA

Proposition 98: One-Time Versus Ongoing Spending

- Unsurprisingly, the enacted budget utilizes significant one-time spending across the K–12 and community college budgets
- The state is spending 65% and 69%, of K–12 and community college resources, respectively, on one-time programs
  - Excludes the sizable investment to pay off all deferrals
- The major ongoing investments are for unrestricted formula apportionments—the LCFF and the SCFF—and a few programs that focus on improving educational equity



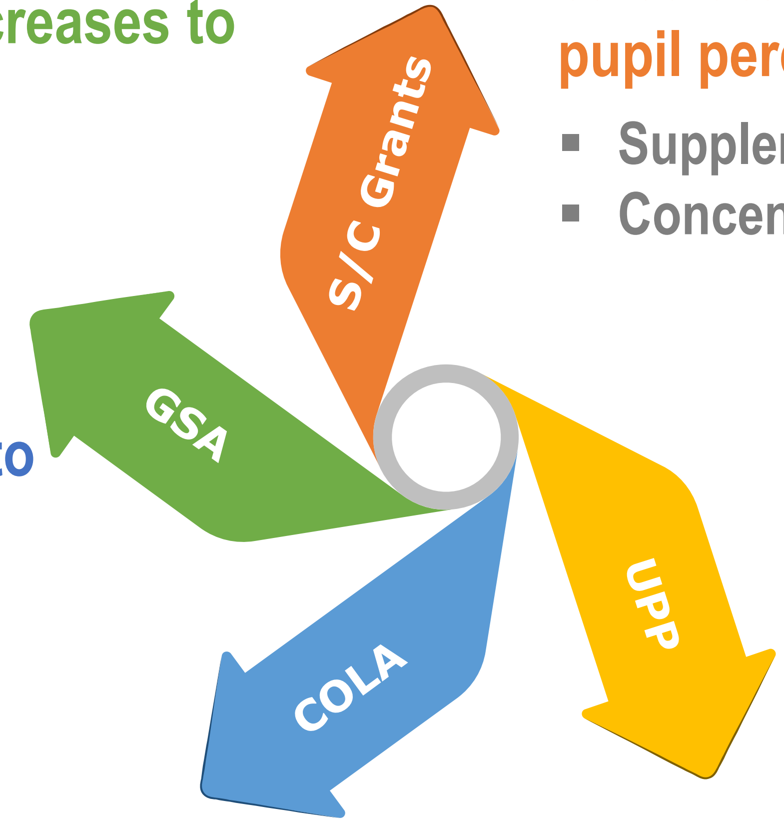
2021–22 LCFF Funding Factors

Grade span adjustments (GSAs) applied as percentage increases to the base grants

- Grades K–3—10.4%
- Grades 9–12—2.6%

Supplemental and concentration grants calculated based on the unduplicated pupil percentage (UPP)

- Supplemental—20% of base grant
- Concentration—65% of base grant



5.07% mega COLA applied to the base grants

- 2020–21 COLA of 2.31%
- Compounded with 2021–22 statutory COLA of 1.7% + 1.00%

UPP—LEA's enrolled students who are English learners, free or reduced-price meal program eligible, or foster youth

2021–22 LCFF Funding Factors

Grade Span	K–3	4–6	7–8	9–12
2020–21 Base Grant per ADA	$7,702	$7,818	$8,050	$9,329
5.07% Mega COLA	*$390*	*$396*	*$408*	*$473*
2021–22 Base Grant per ADA	$8,092	$8,214	$8,458	$9,802
GSA	*$842*	–	–	*$255*
2021–22 Adjusted Base Grant per ADA	$8,934	$8,214	$8,458	$10,057
20% Supplemental Grant per ADA (Total UPP)	$1,787	$1,643	$1,692	$2,011
65% Concentration Grant per ADA (UPP Above 55%)	$5,807	$5,339	$5,498	$6,537

Concentration Grant Version 2.0

- Enacted Budget includes $1.1 billion ongoing to augment the concentration grant component of the LCFF beginning in 2021–22

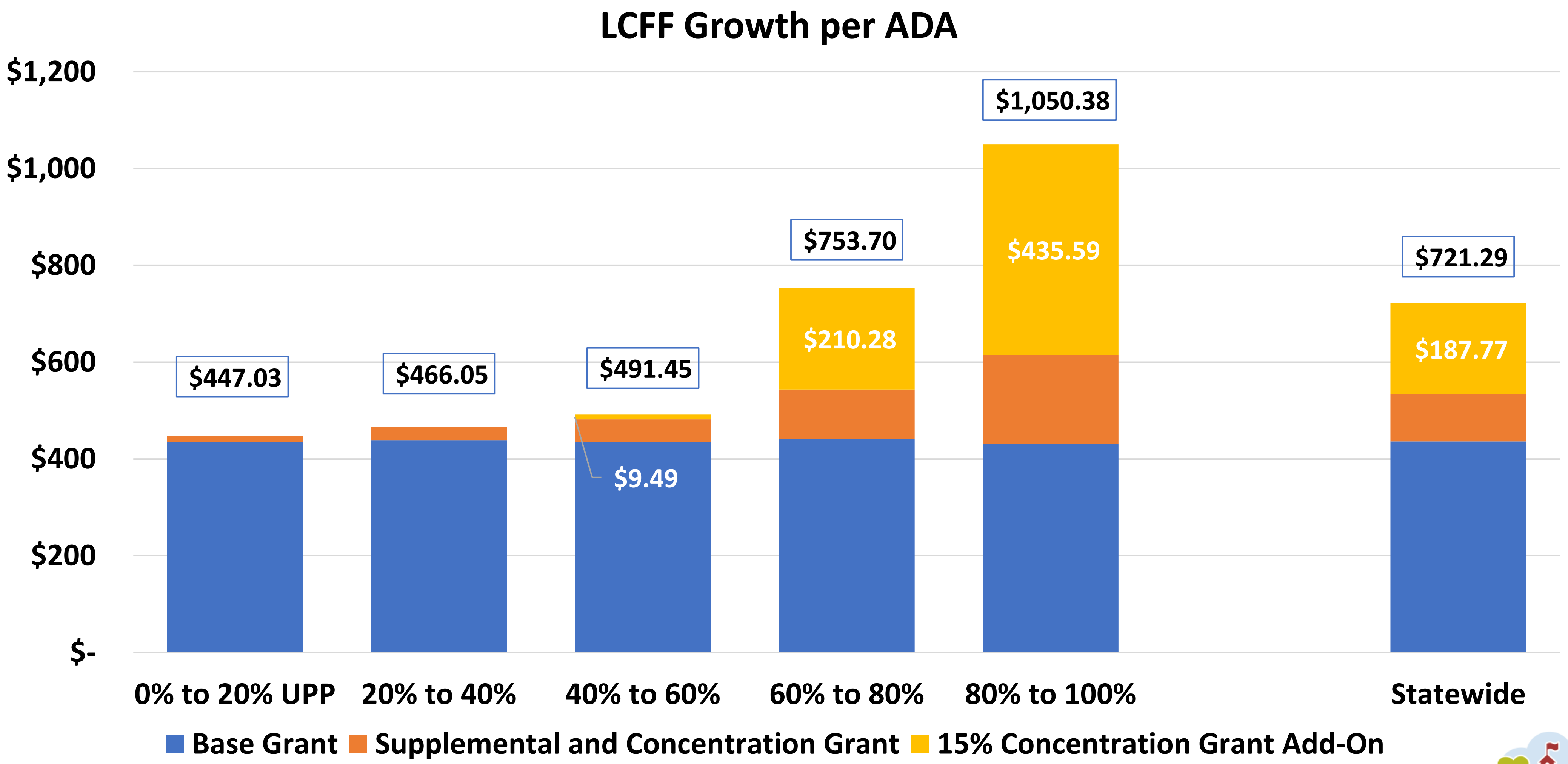
Increases the funding factor from 50% to 65% of the adjusted grade span base grant

Additional 15% to be used to increase the number of credentialed and/or classified staff who provide direct services to pupils

Increase is measured by comparing prior year staff-to-pupil ratios at schools with greater than 55% UPP versus schools with less than 55% UPP

Use of these funds in 2021–22 must be detailed in a one-time LCAP supplement

LCFF Growth



LCFF Growth per ADA
$1,200
$1,000
$800
$600
$400
$200
$-
$447.03
$466.05
$491.45
$9.49
$753.70
$210.28
$1,050.38
$435.59
$721.29
$187.77
0% to 20% UPP
20% to 40%
40% to 60%
60% to 80%
80% to 100%
Statewide
Base Grant
Supplemental and Concentration Grant
15% Concentration Grant Add-On

County Office of Education LCFF—Operations Grant

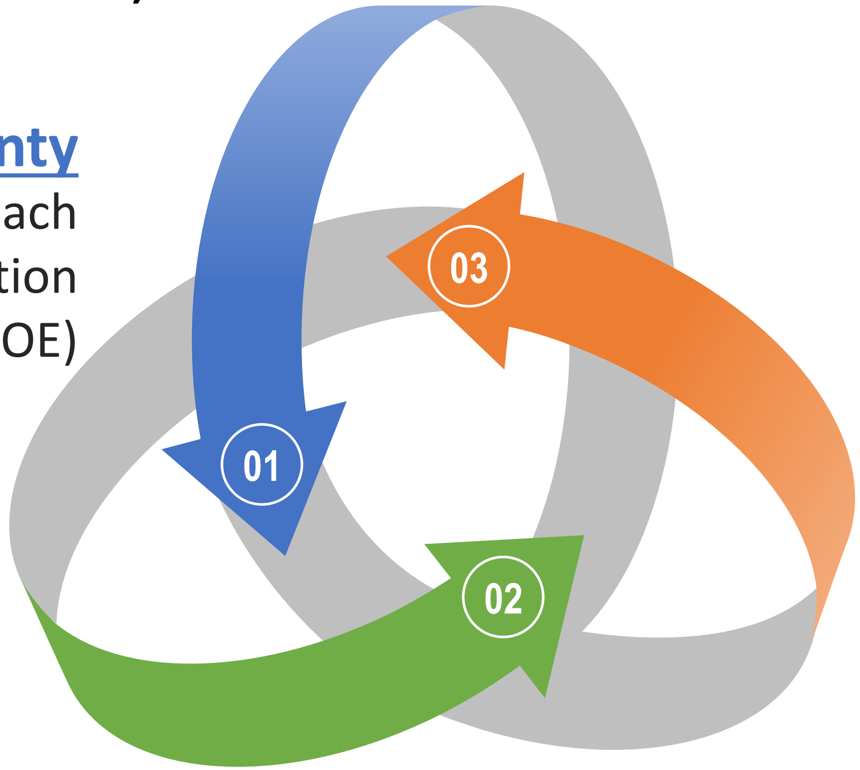
- The operations grant combines three components (inclusive of the 5.07% mega COLA)

$756,276 per county

A base amount for each county office of education (COE)

$126,045 per school district

A uniform amount per district in the county



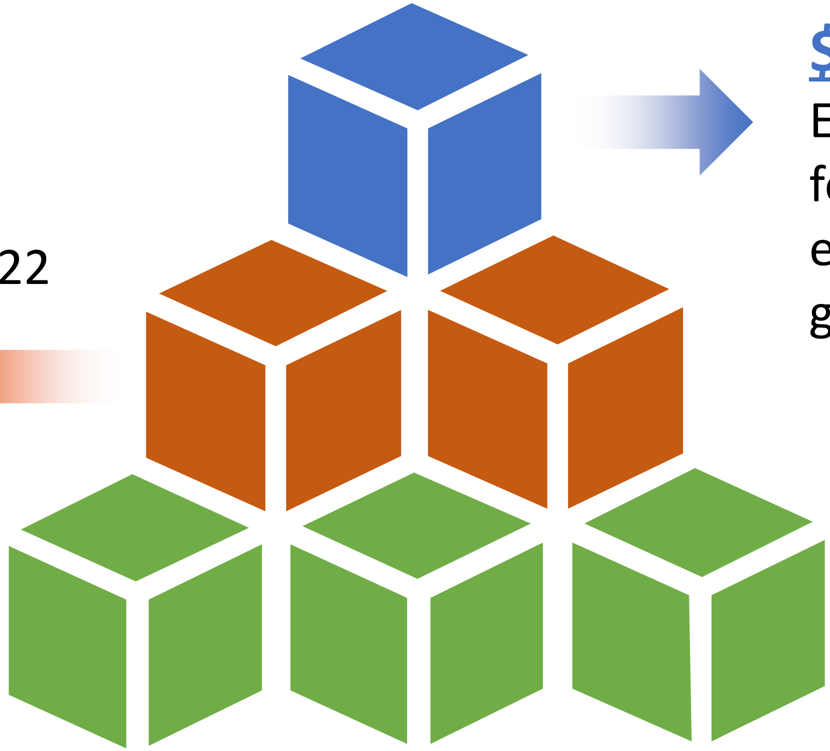
Per-ADA

A per-ADA amount based on countywide ADA

Countywide ADA:	Amount per ADA
1–30,000 ADA	$80.71
30,001–60,000 ADA	$69.18
60,001–140,000 ADA	$57.64
Greater than 140,000 ADA	$46.13

County Office of Education LCFF—Alternative Education Grant

- The alternative education grant is calculated on the following factors:



Supplemental Grant
$4,527 per ADA

Equal to 35% of the 2021–22 base grant for eligible students, including all juvenile court school students

Concentration Grant
$4,527 (or $2,263 per ADA)

Equal to 35% of the 2021–22 base grant for eligible students exceeding 50% of enrollment; or 17.5% of the 2021–22 base grant for all juvenile court school students

Base Grant
$12,934 per ADA

2021–22 base grant (adjusted for 5.07% mega COLA)

UPP is based on eligible students enrolled in COE programs meeting eligibility criteria for supplemental and concentration grants

Fiscal Cliff On The Horizon

- Cumulative ADA impacts from declining enrollment
    - ✓ Expiration of pandemic-ADA hold harmless
- Loss of closed charter school ADA
- Expiration of temporary employer pension contribution relief
- Potential impacts from Unemployment Insurance temporary fixed rate solution
- Expiration of various one-time pandemic-related funding sources
- Triggering of cap on district reserves

Cap on District Reserves

- Enacted Budget sets aside $6.4 billion (8.1%) in the education rainy day fund
  - So, the cap would be triggered for 2022–23

3%

Cap on reserves is effective when the amount in the education rainy day fund is at least 3% of the K–12 Proposition 98 minimum guarantee

10%

Local reserves in adopted or revised budget cannot exceed 10% of combined assigned and unassigned general fund balances

Basic aid and districts with fewer than 2,501 average daily attendance are exempt from the reserve cap

Cash Flow and Deferrals

	2020–21 Enacted Budget	2021–22 Governor's Budget	2021–22 May Revision	2021–22 Enacted Budget
Deferral Balance	$13 Billion	$3.7 Billion	$2.6 Billion	$0

- The Enacted Budget also accelerates repayment of the February through April 2021 deferrals

February 2021	March 2021	April 2021	May 2021
$1.54 Billion	$2.38 Billion	$2.38 Billion	$2.38 Billion
~~November 2021~~	~~October 2021~~	~~September 2021~~	August 2021
August 2021	August 2021	August 2021	

2021–22 ADA Impacts

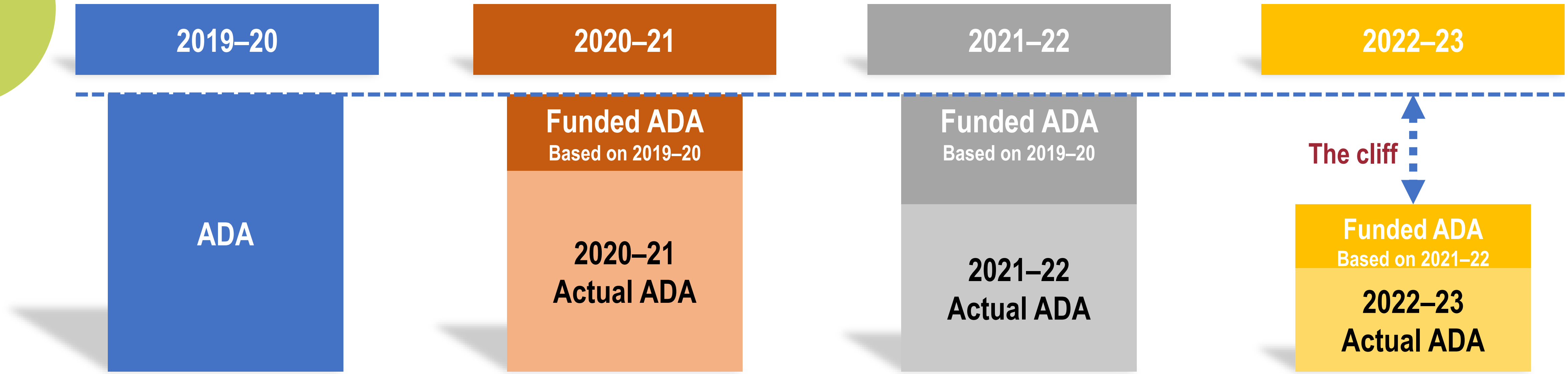
- In normal times, school districts are allocated general apportionments based on their LCFF calculations and adjustments to attendance
  - Authorized to use the higher of current-year ADA or prior-year ADA
- To address concerns about the impact of the pandemic on student enrollment and attendance under distance learning, the 2020–21 Budget Act did all the following:

Reinforced the ADA “hold harmless” for school districts → Applied it to charter schools and COEs for the 2020–21 fiscal year → Initially barred increased funding for LEAs experiencing ADA growth in 2020–21 →

- Amidst protest on the ADA cap for LEAs with increased attendance, lawmakers approved SB 820 (Chapter 110/2020), providing growth funding under certain conditions

2021–22 ADA Impacts

- The 2021–22 school year for many represents a return to normal
- Still looming is the ADA cliff for school district funding in 2022–23
  - Impacts funding for LCFF, Lottery, and Mandate Block Grant



- LEAs who have experienced a decline in enrollment over the prior two years will need to initiate "right-sizing" conversations

2021–22 ADA Impacts

- Charter schools that lose enrollment experience the “fiscal cliff” in real time
  - Charter schools do not enjoy the benefit of using prior-year data to compute funding entitlements
- Some charter schools are experiencing an additional “cliff” due to sharp declines in counts of low-income students
  - Losing eligibility for Charter School Facilities Grant and other revenues

2021–22 ADA Impacts

- "Growth" funding for nonclassroom-based schools returns this year after being capped/unfunded in 2020-21
- Growth funding will be governed by pre-existing, charter-specific laws
  - Advance Apportionment funding available for those that grew by adding grade levels and filed timely for PENSEC
  - Other growth funding will be factored-in at First Principal Apportionment, growth funds provided in months of February-June

State Pandemic Funding

	Senate Bill 117	Learning Loss Mitigation Fund—Proposition 98	In-Person Instruction Grant	Expanded Learning Opportunity Grant
Resource Code	7388	7420	7422	7425/7426
Total Funding	$100 million	$540 million	$2.0 billion	$4.6 billion
Timeline for Use	Open	March 1, 2020–June 30, 2021	July 1, 2020–August 31, 2022	July 1, 2020–August 31, 2022

Federal Pandemic Funding

	LLM Fund – Coronavirus Relief Fund	LLM Fund – GEER[1] I	ESSER[2] I	ESSER II	ESSER III
Resource	3220	3215	3210	3212	TBD
Funding for LEAs	$4.4 billion	$355 million	$1.48 billion	$6.0 billion	$13.6 billion
Deadline for Use	May 31, 2021	September 30, 2022	September 30, 2022	September 30, 2023	September 30, 2024

[1] Governor's Emergency Education Relief
[2] Elementary and Secondary School Emergency Relief

Impacts on Multiyear Projections and Cash

- Mega COLA
- Concentration grant augmentation
- One-time federal funds
- One-time state funds

- State unemployment insurance
- State pension funds
- “New hires” with one-time funds
- Additional costs with reopening

What is Cash and Cash Flow?

- Cash is the result of what actually happens—the real world
- Cash flow is the difference between the available cash balance at the beginning of a period (i.e., a month) compared to the available cash balance at the end of the of the period
  - ✓The actual inflow and outflow of funds
  - ✓"Cash position" is balance at the end of the period
- Negative cash positions can be mitigated by borrowing

What is Cash Insolvency?

- Cash insolvency occurs when payroll expense exceeds available cash, and all options for borrowing have been exhausted
- Cash insolvency is a function of deficit spending, erosion of fund balance and sustained negative cash flow over time
- Cash is king! Cash shows no mercy! Cash insolvency is the end of road—game over—and is usually the trigger point for an emergency appropriation and the resulting changes in governance

Cash Flow Sufficiency

- How does an LEA make sure to have enough cash to make payroll and pay the bills?

- Prepare cash flow projections going out 18 to 24 months
- Prompt monthly reconciliation of cash and all other general ledger accounts
- Updating the cash flow projection with the actuals as each month closes
- Re-projecting cash receipts and disbursements for the rest of the months

Budget vs. Cash Flow

Budget

- Annual
- <u>Anticipated</u> revenue/source, expenditures/uses and reserves
- Generally Accepted Accounting Principles regarding recognizing revenues, accruals
- 45-day and interim report updates
- Fund specific

Cash Flow

- Monthly (sometimes weekly)
- <u>Actual</u> receipts, disbursements and available funds in the county treasury
  - ✓ Forecast: annual data with time factors such as apportionment schedules
- Cash and budget are equalized with accruals (e.g., receivables and payables)
- Monthly updates; first sign of fiscal distress
- All funds

Key Steps in Preparing and Monitoring

Preparation	Monitoring
• One of three critical SACS reports: budget, multiyear financial projection and cash flow ✓ Use Projection-Pro or other tools • Balance to budget • Ensure accuracy based on historical information, updated for new appropriation schedules and expenditure plans • 18 months minimum, 24 months better • All funds	• Timely • Monthly (sometimes weekly) posting of actuals and reconciliation ✓ Don't forget balance sheet accounts (accounts receivables and payables) • Updating 18- / 24-month view as actuals are posted • Updating forecast as information changes

Assessing Fiscal Risk

High Risk	High Risk	Moderate Risk
Budget Development and Adoption	Fund Balance and Reserve for Economic Uncertainty	Special Education
Budget Monitoring and Updates	General Fund – Current Year	**Low Risk**
Cash Management	Information Systems and Data Management	Annual Independent Audit
Collective Bargaining Agreements	Internal Controls and Fraud Prevention	Charter Schools
Contributions & Transfers to Other Funds	Leadership and Stability	Facilities
Deficit Spending	Multiyear Projections	
Employee Benefits	Non-Voter-Approved Debt and Risk Management	
Enrollment and Attendance	Position Control	

Indicators of Risk or Potential Insolvency K-12

- Unreliable budget development
- Insufficient budget monitoring or updates
- Inadequate cash management
- Mismanaged collective bargaining agreements
- Increasing and/or unplanned contributions and transfers
- Continued deficit spending
- Mismanaged employee benefits
- Inattention to enrollment and attendance reporting
- Decreasing fund balance and reserve for economic uncertainty
- Ineffective internal controls and fraud prevention
- Breakdown in leadership and communication
- Lack of multiyear planning
- Inattention to non-voter-approved debt and risk management
- Lack of position control
- Related issues of concern
  - Untimely and inaccurate information
  - Annual independent audit findings
  - Facilities master plan out of date
  - Poor data quality

Planning For The Terrain Ahead

- Keep your eye on the data and respond early to changes and trends
- Separate one-time and recurring revenues and expenditures and focus on the structural / recurring nature of the operation
- Prepare two multiyear financial projections (MYP), one reflective of everything you know, and one without the one-time activities to assist in identifying deficit considerations ahead
- If hiring staff with one-time pandemic resources to serve learning loss mitigation or social-emotional supports, keep a close eye on position control related to outyears, monitor attrition carefully and plan for staffing adjustments accordingly

External Cash Borrowing

- Selected external sources of temporary cash include:
  - County superintendent of schools
    - ✓ Borrowing: EC § 42621 / 85221
    - ✓ Conditional advance apportionment: EC § 42622 / 85222
  - County treasurer
    - ✓ County treasurer is LEA treasurer
    - ✓ Limitations on amount and timeline
    - ✓ Calif Constitution, Article XVI, Section 6 and EC § 42620 / 42620.1 / 85220
  - Financial Markets
    - ✓ TRAN

Code section references—school districts and charter schools / charter schools only / community college districts

Tax and Revenue Anticipation Notes (TRANs)

- TRANs are a short-term cash management tool for the General Fund, typically issued on tax-exempt basis
- Characteristics of tax-exempt TRANs:
  - ✓ Issued to even out temporary cash deficits (a) in advance of property tax receipts or (b) due to deferred State payments of LCFF revenues (not “structural” budget deficits)
  - ✓ Monthly cash flows prepared for past, current and projected FYs
  - ✓ Projected cash deficit must be within six months of issuance
  - ✓ TRAN sized to cover maximum cash deficit plus minor working capital reserve (up to 5% of last FY’s expenditures)
  - ✓ Repaid within 13 months of issuance from same FY’s revenues with set-aside dates in advance of final maturity

CSFA Pooled TRANs – The Essentials

K-14 Districts Pool

- Open to CA school districts, community college districts and county offices of education
- Low tax-exempt interest rates based on anticipated high credit ratings
- Low issuance costs with oversight provided by the State Treasurer's Office (STO)
- Financing for seasonal cash shortfalls
- Issuances will be planned as needed

CSFA Pooled TRANs – Steps to Borrow

Step 1

- Prepare monthly cash flows, determine cash flow deficit and size TRAN
- Submit for rating agency & tax counsel

Step 2

- Draft resolutions and documents distributed by Bond Counsel for review and comment

Step 3

- Preliminary Official Statement (POS) drafted by Disclosure Counsel with assistance from LEAs & financing team

Step 4

- Resolutions, documents and draft POS provided to LEAs and CSFA for board actions

Step 5

- Credit ratings received and POS posted

Step 6

- Interest rate on TRANs set by Underwriter with oversight from MDA, STO

Step 7

- Final OS posted and TRAN proceeds delivered to LEAs

CSFA Pooled TRANs – Low Cost Borrowing

- Experienced financing team assigned to transaction(s)
- Low issuance fees
- Online application portal for streamlined application process
- Interest rates anticipated to be competitive with other TRAN pools and stand-alone TRANs

Speakers & Contact Information

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Q&A
Please use the Question Box to submit questions