

SONOMA COUNTY OFFICE OF EDUCATION



Bulletin No. 17-03

September 2016

September 30, 2016

To: District/Charter Business Services
From: Judy Thomson, Director Fiscal Services

State of the State

According to the State Controller's Office's September 2016 monthly report, after four straight months of missed budget projections, California's August revenues of \$8.56 billion outpaced expectations by \$425 million, or 5.2 percent. Total fiscal year-to-date revenues of \$13.98 billion are 1.2 percent below projections. Greater detail is below:

- ✦ *Personal income tax (PIT) receipts* of \$4.8 billion in August were \$374 million higher than predicted in the 2016-17 Budget Act, a difference of 8.5 percent. For the first two months of the fiscal year, PIT receipts are on target—just 0.5 percent higher than expected.
- ✦ *Corporation tax receipts* of \$72.8 million for August fell \$49.7 million short of projections—a difference of 40.6 percent. For the fiscal year-to-date, they are 24.9 percent lower than anticipated.
- ✦ *Retail sales and use tax receipts* of \$3.24 billion for August were just \$20.8 million—a negligible 0.6 percent—lower than expected. For the fiscal year-to-date, sales tax receipts are 5.6 percent lower than expected.

It should be noted that through the first two months of the fiscal year state revenues are below the May Revision forecast level by just under \$900 million (includes 2015-16 coming in \$706 million short). Last year at this time, the state revenues were beating the forecast by just over \$900 million after accounting for the closeout of 2014-15.

California continues to add jobs and the unemployment rate held steady.

Residential construction permits fell 6.2% in July compared to June and were off 20.6% compared to July 2015. Similarly, residential construction spending was off 6.1% for the first seven months of 2016; however, nonresidential construction spending was up 12% for the same period. The median home price in August increased 1.7% from July, reaching \$526,580, just 11% below the pre-recession peak of \$594,530 in May 2007.

Charter School 20 day Attendance Report

Charter schools in their first year of operation that begin instruction by September 30th, and continuing charter schools that are expanding by adding one or more grade levels, may apply for the special advances. The Charter School 20 Day Attendance Report (Charter 20 Day) is based on actual counts of average daily attendance (ADA) and pupil demographic data for the first 20 days of student instruction.

The Charter 20 Day Attendance Report is a Web based application. The data will be submitted online and must be followed up by transmitting a hard-copy certification that is fully signed with original wet signatures. **The form is due to SCOE by October 24, 2016.** Subsequent to review, SCOE will mail the form with original signatures to the CDE by October 31, 2016. Data with signed certifications *received* by the CDE by 10/31/2016 will be included in the 2016-17 charter school 20 Day special advance apportionment and second quarter EPA processes.

The Charter 20 Day special advance is usually paid by the end of December. For more detail and a link to the application, please go to: <http://www.cde.ca.gov/fg/aa/pa/charter2odayinstr16.asp>.

Fall Census Day ~ Wednesday, October 5, 2016

On Fall Census Day, Wednesday, **October 5, 2016**, the 2015–16 CALPADS Fall 1 Annual Enrollment snapshot window opens. CBEDS information is to be submitted through the CBEDS online reporting application (ORA) by the **deadline on October 31, 2016**. It is critical that LEAs review these data for accuracy. Detail information on CBEDS reporting can be found at <http://www.cde.ca.gov/ds/dc/cb/index.asp>

Each LEA must designate a CBEDS coordinator who will be the CDE’s point of contact for any questions regarding the data. The CBEDS - Online Reporting Application Web site at: <http://www3.cde.ca.gov/opuscbeds/login.aspx>. This application requires a user name and password to access the system. Correspondence to CBEDS Coordinators was issued August 25, 2016 and can found at <http://www.cde.ca.gov/ds/dc/cb/cbedsprocessltr16.asp>. The CDE-assigned LEA user name and password were provided via e-mail in July 2016 and again via e-mail shortly after August 25, 2016.

What is the difference between the CBEDS and CALPADS?

The data previously collected through CBEDS is now being collected by two data systems:

- 1) California Basic Educational Data System (CBEDS) - Online Reporting Application (ORA)—known as CBEDS-ORA

CBEDS-ORA collects all of the **school and district-level** data that were collected on the School Information Form (SIF) and County/District Information Form (CDIF) ~ e.g., educational calendar, units required for graduation, etc. In addition, CBEDS-ORA collects aggregate-level counts of classified staff and counts of students for certain Educational Options programs ~ e.g., magnet programs).

- 2) California Longitudinal Pupil Achievement Data System (CALPADS)

CALPADS collects all **individual-level data related to students and certificated staff**, with the exception of credential and authorization information previously collected on the Professional Assignment Information Form (PAIF). The credential and authorization information is maintained by the Commission on Teacher Credentialing. For the calendar go to: <http://www.cde.ca.gov/ds/sp/cl/rptcalendar.asp>

CALPADS Submission	Census Day	Primary Data Submitted	Official Submission Window	Certification Deadline	Amendment Window
Fall 1	October 5, 2016	2016–17 Enrollment Counts 2015–16 Grads and Drops English Language Acquisition Status Immigrant Counts Free/Reduced Price Meal Eligibility	October 5, 2016 to December 2, 2016	December 2, 2016	December 3, 2016 to January 27, 2017
Fall 2	October 5, 2016	Student Course Enrollments Staff Assignments and FTE English Learner Education Services	December 28, 2016 to March 3, 2017	March 3, 2017	March 4, 2017 to March 31, 2017
EOY* 1	N/A	Course completion grades 7–12 CTE participants, concentrators, completers	May 15, 2017 to July 31, 2017	July 31, 2017	August 1, 2017 to August 11, 2017
EOY 2	N/A	Program Eligibility/Participation Homeless Students	May 15, 2017 to July 31, 2017	July 31, 2017	August 1, 2017 to August 11, 2017
EOY 3	N/A	Student Discipline Student Absence Summary	May 15, 2017 to July 31, 2017	July 31, 2017	August 1, 2017 to August 11, 2017

*EOY: End of Year

Debt Proposals ~ Some Answers you should Know

When issuing any form of debt, the following are some questions that you should be able to answer:

1. Why is the District borrowing?
2. What will be the District's annual obligation?
3. What are the planned repayment sources?
4. What is the risk that the annual obligation will vary from year to year and by how much?
5. What is the likelihood that the planned repayment sources will be sufficient?
6. What is the cost of funds and is it reasonable?
7. **What are the District's options and why should we choose this debt mechanism?**

The 2015-16 LA Grand Jury (LAGJ) investigated school bond financing practices and issues. Their report highlights some concerning financial practices regarding Capital Appreciation Bonds (CABs) and other school bond debt. Their comments on this topic can be found on pages 103 to 132 of their 2015-16 Grand Jury report.

<http://www.grandjury.co.la.ca.us/pdf/LOSANGELESCOUNTY2015-2016CIVILGRANDJURYFINALREPORT.pdf>

The LAGJ analysis noted the following suggested four significant problems:

1. **Debt planning and structuring** – prudent financial practices call for capital structuring that minimizes interest cost. This can be accomplished by scheduling the most expensive debt to be outstanding for as short a time as possible, or put another way, repaid first, as well as being callable so that the issuer has the option to repay or replace expensive debt as early as feasible. In debt portfolios reviewed, the most expensive debt was scheduled to be repaid last and noncallable, creating an unnecessarily expensive and lengthy debt obligation.
2. **Interest rates** – the use of debt, particularly CABs and Bond Anticipation Notes (BANs) that carry high interest rates, was frequently observed.
3. **Upfront costs** – multiple transactions led to multiple sets of upfront costs that led to much greater expense.
4. **Hiring of professionals** – the concentration and duplication of financial professionals that were involved in the most expensive issuance of CABs, suggests that professionals may not have been properly vetted and may not have been hired using proper governmental purchasing procedures.

The Governmental Finance Officers Association (GFOA) provides detailed document on best practices. The GFOA website is www.gfoa.org. Here are a few GFOA Best Practices relevant to the suspected problems:

1. Debt planning and structuring/Reducing Existing Liabilities from Debt
 - a. Debt Management Policy, <http://www.gfoa.org/debt-management-policy>
 - b. Small Government/New Issuer-Debt Issuance Checklist ~ **see attached**
<http://www.gfoa.org/sites/default/files/u2/GFOADebtIssuanceChecklistConsiderationsWhenIssuingBonds.pdf>
 - c. Analyzing and Issuing Refunding Bonds, <http://www.gfoa.org/analyzingand-issuing-and-refunding-bonds>
2. Upfront costs
 - a. Costs of Issuance Incurred in a Publicly Offered Debt Transaction, <http://www.gfoa.org/costs-issuance-incurred-publicly-offered-debttransaction>
 - b. Debt Issuance Transaction Costs, <http://www.gfoa.org/debt-issuancetransaction-transaction-costs>
 - c. Expenses Charged by Underwriters in Negotiated Sales, <http://www.gfoa.org/expenses-charged-underwriters-negotiated-sales>
3. Hiring of professionals
 - a. Selecting and Managing Municipal Advisors, <http://www.gfoa.org/selecting-and-managing-municipal-advisors>
 - b. Selecting Bond Counsel, <http://www.gfoa.org/selecting-bond-counsel>
 - c. Issuer's Role in Selection of Underwriter's Counsel, <http://www.gfoa.org/issuer-s-role-selection-underwriter-s-counsel>

Certain types of debt in brief

- ✚ Capital Appreciation Bonds (CABs) ~ principal and interest are due at maturity.
- ✚ Current Interest Bonds (CIBs) ~ requires payment on a semi-annual basis until maturity.
- ✚ Bond Anticipation Notes (BANs) ~ a form of bridge financing that are issued in anticipation of eventual issuance of bonds and can be outstanding *no longer* than 5 years.
- ✚ Certificates of Participation (COPs) ~ a form of lease-purchase agreement or lease-to-own agreement

Prior Year Warrant Cancellations ~ Escape has new logic!

Escape has a new logic for the posting of prior year warrant cancellations.

Old Logic ~ In prior years the old logic was: if a 14-15 warrant was canceled in 2015-16, the account which was original debited in 2014-15 would be credited in 2015-16.

New Logic ~ The new/current logic is: if a 2015-16 warrant is canceled in 2016-17, other local income (object 8699) of the district's general fund/operating fund will be credited in 2016-17. SCOE has identified the following account code for this process: XX-0000-0-0000-0000-8699-000-ZERR

Please see the attached for further details.

LCFF Evaluation Rubrics

The State Board of Education (SBE) has adopted the LCFF Evaluation Rubrics which provide an accountability system for evaluating schools and districts using a variety of measures of school conditions and student achievement. The SBE's intent is to build an improvement and accountability system that integrates local, state and federal regulations.

There are three significant components to the new accountability system:

Component 1: State Indicators

Academic, English Learner Composite, Graduation rate, Suspension rate, College and Career, Chronic Absenteeism, Local Performance Indicators

Component 2: Performance Standards and Categories

Each State indicator will be measured and categorized by "Status" (performance of students) and "Change" (change in performance). The Change factor assesses performance over a period of time with some indicators assessing yearly change and other indicators assessing the current year performance and the preceding two or three year averages.

School Services of California presented the following in its Fiscal Report, *State Board Set to Adopt Initial LCFF Evaluation Rubrics* for a student group experiencing an increase of 1.5% in the graduation rate over a prior three year average:

		CHANGE				
		Declined Significantly by >5%	Declined by 1-5%	Maintained +/-1%	Increased by 1% or <5%	Increased Significantly by >5%
STATUS	Very High 95% or more					
	High 90% to <95%					
	Median 85% to <90%					
	Low 67% to <85%					
	Very Low <67%					
					PERFORMANCE	

Component 3: Determining Mandatory Differentiated or Intensive Technical Assistance

It should be noted that the methodology for determining a LEAs need of Differentiated or Intensive assistance does not employ a single summative rating for schools, which is a departure from the U.S. Department of Education requirements.

Pupil Fees: Damage to School Property

A school district can charge a fee (not to exceed \$10,000) when a student “willfully” cuts, defaces, or otherwise injures any real or personal property belonging to a school district, or personal property of a school employee. California Education Code Section 48904(a)(1). It appears, based on rules of construction, that the word “willfully” modifies each of the phrases -- “cuts, defaces or otherwise injures” -- that follows. Therefore, school districts should analyze, on a case-by-case basis, whether property has been willfully damaged. A blanket policy that charges fees for any damage to property would appear to be inconsistent with the statute.

Districts May Claim Reimbursement for California Assessment of Student Performance and Progress Mandate

On July 1, 2016, the State Controller’s Office (SCO) issued claiming instructions for the California Assessment of Student Performance and Progress (CAASPP) mandate. The Commission on State Mandate’s (CSM) found that costs related to Internet access, staff training, new computers, and other technology required to implement the new test is a reimbursable state mandate.

The SCO claiming instructions allow for reimbursement for providing computing devices, the use of an assessment technology platform and the adaptive engine to administer the CAASPP assessments to all pupils via computer. This includes a sufficient number of desktop or laptop computers, iPads, or other tablet computers, certain broadband internet service, installation of wireless and the hiring consultants or engineers to assist a district in completing and troubleshooting the installation. Also mentioned was the CAASPP coordinator, notification of parents/guardians each year of their pupil’s participation in the CAASPP assessment system, and the CAASPP test site coordinator.

The claiming instructions also specify offsetting revenues that must accompany the reimbursement claim. These offsetting revenues are from appropriations made in prior year Budget Acts either specifically for CAASPP implementation or one-time funds for Common Core implementation, if used for CAASPP mandated activities. The claiming instructions also require districts to report any federal funds that were expended for reimbursable CAASPP activities.

The deadline for filing for reimbursement of costs incurred in the 2013-14 and 2014-15 fiscal years is due to the SCO by October 31, 2016. Reimbursement claims for the 2015-16 fiscal year are due to the SCO by February 15, 2017.

For the full text of the claiming instructions for the California Assessment of Student Performance and Progress (CAASPP) – Program No. 369, click [here](#), or go to http://www.sco.ca.gov/ard_mancost_sd_man_1516.html and look under the “State-Mandated Cost Programs” subtitle.

Which programs are NOT included in the MBG?

The following school district mandates are not included in the 2016–17 MBG list and are eligible to file reimbursement claims through the SCO for the costs incurred in FY 2016–17. **However, funds must be appropriated for these mandate programs before any reimbursement claims can be paid.**

Current Program Name	Program Number
California Assessment of Student Performance and Progress (CAASPP)	369
Teacher Incentive Program	252
Training for School Employee Mandated Reporters	367

Reminders/ Please consider:

AV mail

If a document, such as a LOC request, is included with an interim, adopted budget, or unaudited financial report, it may not be noticed until we start reviewing that particular financial report due to the numerous pages involved. We recommend sending the aforementioned financial reports in a separate envelope.

Instructional Materials Public Hearing Requirements for Fiscal Year 2016-17

Education Code Section 60119 requires that local governing boards hold an annual public hearing **on or before the end of the eighth week from the first day pupils attend classes** and adopt a resolution (DOC) stating whether each pupil in the LEA has sufficient textbooks or instructional materials. This public hearing and resolution are required annually. LEAs should keep the resolution on file for the LEA's annual audit. See SCOE Biz Bulletin 17-02 from the August 2016 DBUG meeting for more detail at dp.scoe.org.

Proposition 39 – California Clean Energy Jobs Act – California Energy Commission – Annual Progress Report

Today, **September 30, 2016**, is the last day for LEAs with approved energy expenditure plans to submit their **Annual Progress Reports** to the Energy Commission. Reporting instructions, training videos, and PowerPoint presentations are available on the Proposition 39 (K-12) program webpage at:

<http://www.energy.ca.gov/efficiency/proposition39/index.html>. Questions may be directed to Prop39@energy.ca.gov or the Proposition 39 (K-12) Hotline, toll-free at 855-380-8722.

Dates to Remember:

09/30/2016	Last day to submit Annual Progress Report ~ Prop 39 California Clean Energy Jobs Act
10/05/2016	Census Day
10/10-10/14/2016	Payroll certification classes 1pm -5pm
10/18/2016	Payroll certification exam
10/20/2016	Interim Workshop
10/20/2016	DBUG
10/28/2016	School & College Legal Services Workshop ~ Record Retention & Professionalism

NOTE: Documents that are presented at DBUG may be found at dp.scoe.org website under the "DBUG/SCOE Bulletins" tab.

Small Government/New Issuer - Debt Issuance Checklist: Considerations When Issuing Bonds

- 1) Has the issuer retained a municipal advisor (the issuer should determine if they wish to use a municipal advisor that is or is not associated with a municipal broker/dealer firm) and bond counsel to, among other tasks, assist the issuer in determining the most appropriate method of sale: competitive, negotiated, bank qualified, bank loan or private placement? Is the issuer aware of new SEC regulations over municipal advisors, and the changes regarding if and when an underwriter may provide advice to the issuer? Has the issuer discussed the possibilities of using disclosure counsel in addition to bond counsel? (BP – Selecting and Managing the Engagement of Municipal Advisors; BP – Selecting and Managing the Method of Sale of State and Local Government Bonds, BP – Selecting Bond Counsel, GFOA Municipal Advisor Issue Brief)
- 2) Is the type of debt being considered the most appropriate form for the type of project being financed? For example, if the capital improvement is for a revenue-generating project or system, the use of revenue bonds may be a better financing option than using a portion of the government's limited general obligation bonding capacity. (BP – Debt Management Policy)
- 3) Does the maturity structure and estimated debt service match the anticipated flow of revenues available for debt service in a manner that will not raise credit concerns and will unduly contribute to a favorable market reception? (BP – Debt Management Policy)
- 4) For a competitive sale, do the terms and conditions of sale as described in the Notice of Sale allow potential bidders sufficient flexibility to structure the most favorable bid possible? (BP – Selecting and Managing the Method of Sale of State and Local Government Bonds)
- 5) For a negotiated sale, does the underwriter request for proposals (RFP) request sufficient information to enable the issuer to select the most qualified firm at the best price? Does the RFP process provide a transparent and objective evaluation/ranking of respondents, free of undue political influence? Additionally, does the RFP require the underwriter to provide information on the cost of borrowing for the duration of the bonds, not just the cost of issuance, as well as having the underwriter provide at sale pricing comparables and a post-pricing book showing market conditions at the time of the sale and other sales in the market at the time of the sale? (BP – Selecting and Managing the Method of Sale of State and Local Government Bonds, Selecting and Managing the Engagement of Underwriters for Negotiated Bond Sales)
- 6) Depending on method of sale and applicable state laws, has the issuer, with assistance from its municipal advisor and/or bond counsel, developed a preliminary official statement, official statement or other disclosure documents, and are they being properly distributed?" (BP – Selecting and Managing the Method of Sale of State and Local Government Bonds, BP – Selecting and Managing the Engagement of Municipal Advisors, BP - Selecting Bond Counsel)
- 7) Does the preliminary official statement and/or other disclosure documents meet or exceed industry standards? (BP – Maintaining an Investor Relations Program, Using Your Web Site for Disclosure, Understanding Your Continuing Disclosure Responsibilities)

- 8) Has legal counsel been consulted to ensure that all tax and legal requirements been satisfied, including any public notices as directed by state or federal laws?
- 9) Has the municipal advisor and/or bond counsel been consulted to ensure that the appropriate level of investor outreach has been conducted? (BP – Maintaining an Investor Relations Program)
- 10) Have credit ratings been sought for the issue? Has the municipal advisor and/or bond counsel been consulted as to how many different ratings should or need to be obtained for this type of bond issue? Has the municipal advisor and/or bond counsel been consulted about using bond insurance or other credit enhancements for the issue especially if the rating is, or is expected to be A or lower? (BP – Debt Management Policy)
- 11) Have post issuance compliance policies and procedures been adopted, to ensure compliance and understanding of what is required by the issuer on an ongoing basis? (Post Issuance Compliance Checklist, BP - Debt Management Policy, BP - Understanding Your Continuing Disclosure Responsibilities, BP – Investment of Bond Proceeds)
- 12) Do the appropriate issuer officials and representatives have an understanding of all the fees that the issuer must pay in conjunction with the bond transaction? Have the municipal advisor and/or other professionals been consulted about these various fees and if they are necessary and appropriate for a financing of this nature, size and complexity? (BP – Expenses Charged by Underwriters in Negotiated Sales, BP – Cost of Issuance Incurred in a Publicly Offered Debt Transaction).

Resources

- GFOA Best Practice, Cost of Issuance in a Publically Offered Debt Transaction (2013)
- GFOA Best Practice, Debt Management Policy (2012)
- GFOA Best Practice, Expenses Charged by Underwriters in Negotiated Sales (2012)
- GFOA Best Practice, Maintaining an Investor Relations Program (2010)
- GFOA Best Practice, Pricing Bonds in a Negotiated Sale (2010)
- GFOA Best Practice, Understanding Your Continuing Disclosure Responsibilities (2010)
- GFOA Best Practice, Using Your Web Site for Disclosure (2010)
- GFOA Best Practice, Selecting and Managing the Engagement of Municipal Advisors (2014)
- GFOA Best Practice, Selecting Bond Counsel (2008)
- GFOA Best Practice, Selecting and Managing the Engagement of Underwriters for Negotiated Bond Sales (2014)
- GFOA Best Practice, Investment of Bond Proceeds (2013)
- GFOA Best Practice, Selecting and Managing the Method of Sale of State and Local Government Bonds (2014)
- GFOA/NABL, Post Issuance Compliance Checklist
- GFOA Issue Brief: SEC Municipal Advisor Rule
- CDIAC Debt Issuance Primer, http://www.treasurer.ca.gov/cdiac/publications/alphabetical.asp#debt_primer

ESCAPE'S NEW LOGIC FOR PRIOR YEAR WARRANT CANCELATIONS

Escape Logic

Escape has new logic for PY Warrant Cancelations. Per CSAM receipts canceling expenditures from prior year must be accounted for as revenue in the current year. Escape now requires a Prior Year Cancel Check Account Link Number when canceling prior year checks. The prior year cancel check account number that has been set up in Escape for each district is the district's general fund with local income 8699 and management code ZERR. Account: XX*-0000-0-0000-0000-8699-000-ZERR

XX* represents the operating fund of the district number:

For districts this is fund 01 (including charter schools reported within a district)

For #21 SunRidge Charter School this is fund 09.

For #44 Piner-Olivet Charter School this is fund 03.

For non-profit (i.e independent) charters schools this is fund 62.

Districts are already reviewing and clearing dollars in the ZERR account, this will be another ZERR account to review and clear.

Possible Journal Entries to automatic posting in Escape

Every circumstance for a commercial warrant cancellation is unique. Whether or not you reissued in the current year and whether you consider the amount material or not, all need to be factored in when determining what journal(s) to create. At the very minimum, when the circumstance is that the check *never should have been issued*, a journal will need to be created moving the dollars out of the local income ZERR account and to another appropriate revenue account, as all ZERR accounts must be cleared in Escape. Please contact your accountant if you need assistance in determining what journal(s) to create.

SCOE notification

Scott Greenwood will continue to put in your SCOE mail slot a snap shot of the canceled check. In addition he will begin highlighting the year (2016) when the cancel is a prior year warrant. The highlighted year should serve as a reminder it has been posted to 8699/ZERR and needs to be reviewed and cleared.