Solving the Funding and Cash Flow Puzzle for School Facilities

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A District’s School Facility Funding Program is

- COMPLEX
- MULTI-FACETED
- DYNAMIC

A comprehensive Facilities Funding Plan should address all aspects of the District’s school facility funding program.
Numerous Considerations Impact a Facilities Funding Plan
Start by identifying your District’s facilities needs

- **STUDENT GROWTH**
- **AGING FACILITIES**
- **FACILITY EQUITY**

Does your District need:
- new schools or classrooms for growth?
- modernization or replacement of old facilities?
- improvements at specific campuses to address equity considerations district-wide?
Use tools such as those above (and existing District plans and studies) to refine your needs list:

- **where and when** will you need more classrooms?
- **which** facilities should be modernized/replaced?
- **what** improvements are needed at which campuses to address equity considerations?
Next, identify existing District sources of funds

Does your District have:
• facility funds available for new projects?
• existing developer fee revenues?
• real estate or other assets that could be used or converted to address current district facility needs?
Identify Priority School Projects and Funding Resources

**STATE GRANT PROGRAMS**
- New Construction: 50%/50%
- Modernization: 60%/40%
- Financial Hardship: to 100%
- Facility Hardship: 50% TO 60%
- Joint-Use Grants: to 50%
- Other Programs: TBD

**DEVELOPER MITIGATION REVENUE**
- Statutory Developer Fees (Level 1)
- Level 2 Developer Fees (SFNA is required)
- Developer Mitigation Agreements
- Mello-Roos (Community Facility District) Bond Programs
- Redevelopment Agency Revenues
- Other Resources

**GENERAL OBLIGATION BONDS & OTHER FINANCING PROGRAMS**
- Proposition 39
- 2/3 Vote Bonds
- Lease Revenue Bonds
- Certificates of Participation
- Bond Advancement Programs
- Other Financing Methods
<table>
<thead>
<tr>
<th>New Construction</th>
<th>Facility Hardship</th>
<th>Joint Use</th>
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<tbody>
<tr>
<td>Modernization</td>
<td>Overcrowding Relief</td>
<td>Charter Schools</td>
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<tr>
<td>Financial Hardship</td>
<td>Emergency Repair</td>
<td>Career Technical Education</td>
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<td></td>
<td></td>
<td>Grants</td>
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<td></td>
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<td>Other . . .</td>
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# School Funding Program Funding Resources

<table>
<thead>
<tr>
<th>District Resources</th>
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<tbody>
<tr>
<td><strong>Voter Approved</strong></td>
<td><strong>Approved Mello-Roos Bonds</strong></td>
<td><strong>Federal and State Grants</strong></td>
</tr>
<tr>
<td>G.O. Bonds</td>
<td>(Community Facilities Districts)</td>
<td>Asset Management</td>
</tr>
<tr>
<td>Developer Mitigation</td>
<td>Restricted Revenue Project Funds</td>
<td></td>
</tr>
<tr>
<td>Redevelopment Agency Revenues</td>
<td></td>
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</tbody>
</table>
School Funding Program Funding Resources

Bond Advancement Programs
Adjustable and Fixed Rate Certificates of Participation

Adjustable and Fixed Rate Lease Revenue Bonds
Bond Anticipation Notes

Lease-Purchase Financings
Direct Placement Financings with Letter of Credit Banks

Interim Financings
Match Sources and Uses of Funds

• Once you understand what you need and what sources are available, attempt to match your needs against available funding sources. Ask the questions:

• *Is this a need that could be addressed by*
  – State funding?
  – Developer Mitigation Revenue?
  – General Obligation Bonds or other financing?
  – Some other available source of funds?
### State Grants are Predicated Upon:

<table>
<thead>
<tr>
<th>Grant eligibility</th>
<th>State Grant Application approval by SAB</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSA approved construction plans for projects</td>
<td>Continuing voter approval of State school bonds</td>
</tr>
<tr>
<td>CDE plan approval</td>
<td>State’s timely issuance of school bonds</td>
</tr>
<tr>
<td></td>
<td>District’s timely award of construction contracts</td>
</tr>
<tr>
<td></td>
<td>Application for State funds</td>
</tr>
<tr>
<td></td>
<td>Receipt of State approved grants</td>
</tr>
</tbody>
</table>
Issuance of G.O. Bonds Requires:

- District Local Voter Approval
- Adherence to Prop. 39 tax limitations or 2/3 vote
- Reasonable growth in the District’s assessed value
- District’s financial ability to access capital markets
- Reasonable interest rates
**District Revenue is Dependent Upon:**

<table>
<thead>
<tr>
<th>Mandated developer fee levies/developer mitigation agreements</th>
<th>Income from sale or lease of surplus District property</th>
<th>Redevelopment assessed value growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tentative tract maps for new development</td>
<td>Availability of State and Federal Grants and Eligibility</td>
<td>Rate of return on County Pooled Money Investment Fund &amp; other invested funds</td>
</tr>
</tbody>
</table>
Team Members Needed for Successful Facilities Implementation Plan

District Facilities Planning and Senior Staff Members
Financial Advisor
Program Planning Manager, Advisor & Administrator

*Other specialists you may want to consult if you lack this experience on your team:*

Construction Cost Estimator/Architect
Demographics Specialist
Developer Mitigation Specialist
State Eligibility and State Funding Specialist
Checklist for Producing a Successful Facilities Funding Plan

1. Once the District’s “funding plan team” is assembled, establish a deadline to gather data and prepare the “draft” report for senior staff.

2. Send to District Senior Staff for review.

3. Make revisions and continue consultations with Senior Staff.

4. Present the Plan to the School Board for approval, adoption and implementation by the District.
Poway USD Example

• In 2000, Poway USD recognized that older facilities on the east side of the district were inferior to newer and planned facilities on the west side of the district.
• To alleviate this issue and address facilities needs, Poway has implemented a plan that included multiple strategies to obtain funding for school facilities.
• The District’s “Facilities Funding Plan” has been revised multiple times as circumstances have changed.
Poway’s Plan Has Included:

- Forming a School Facilities Improvement District encompassing all the properties not within a boundary of a CFD.
- SFID No. 2002-1 was approved by the voters in 2002 and was authorized to issue $198 million in G.O. Bonds.
- Poway USD went back to the voters in 2007 and SFID No. 2007-1 was created to issue $179 million in G.O. Bonds.
- Poway USD has obtained approximately $190 million in State School Facility Funding and almost $300 million from other resources.
Poway’s Funding Plan includes multiple revenue sources over multiple years

<table>
<thead>
<tr>
<th>Projects</th>
<th>State</th>
<th>Local</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>New Const</td>
<td>Modernization</td>
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<tr>
<td>Del Norte High CFD</td>
<td>$30,475</td>
<td>$101,977</td>
<td>$132,453</td>
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<tr>
<td>Del Sur Elementary</td>
<td>$13,054</td>
<td>$30,855</td>
<td>$43,909</td>
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<td>Monterey Ridge Elementary</td>
<td>$14,315</td>
<td>$27,378</td>
<td>$41,693</td>
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<td>Oak Valley Middle School</td>
<td>$16,347</td>
<td>$29,179</td>
<td>$45,526</td>
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<td>Stone Ranch Elementary</td>
<td>$10,536</td>
<td>$14,930</td>
<td>$25,467</td>
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<td>Willow Groove Elementary</td>
<td>$9,000</td>
<td>$24,600</td>
<td>$33,700</td>
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<tr>
<td><strong>Total CFD</strong></td>
<td>$50,789</td>
<td>$229,252</td>
<td>$280,041</td>
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<table>
<thead>
<tr>
<th>Projects</th>
<th>SFID</th>
<th>New Const</th>
<th>Modernization</th>
<th>CFD and LRB</th>
<th>General Obligation Bonds</th>
<th>Other</th>
<th>Total</th>
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<tr>
<td>Abravanel Continuation High</td>
<td>$1,118</td>
<td>$500,000</td>
<td>$10,641</td>
<td>$12,360</td>
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<td>Bernardo Heights Middle</td>
<td>$2,220</td>
<td>$2,810</td>
<td>$12,835</td>
<td>$15,142</td>
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<td>Black Mountain Middle</td>
<td>$3,339</td>
<td>$4,653</td>
<td>$8,104</td>
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<td>Canyon View Elementary</td>
<td>$1,104</td>
<td>$6,105</td>
<td>$7,209</td>
<td>$3,209</td>
<td>$6,042</td>
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<td>Chaparral Elementary</td>
<td>$1,133</td>
<td>$1,500</td>
<td>$19,226</td>
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<td>Deer Canyon Elementary</td>
<td>$1,206</td>
<td>$609</td>
<td>$5,175</td>
<td>$8,302</td>
<td>$6,836</td>
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<td>Garden Road Elementary</td>
<td>$1,069</td>
<td></td>
<td>$14,137</td>
<td>$14,300</td>
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<td>Los Penasquetia Elementary</td>
<td>$2,083</td>
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<td>$14,489</td>
<td>$16,573</td>
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<td>Meadowbrook Middle</td>
<td>$4,456</td>
<td>$4,075</td>
<td>$14,953</td>
<td>$26,390</td>
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<td>Millwood Elementary</td>
<td>$4,985</td>
<td>$1,056</td>
<td>$18,822</td>
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<td>$15,727</td>
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<td>Morning Creek Elementary</td>
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<td>$4,456</td>
<td>$13,436</td>
<td>$6,340</td>
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<td>Mt. Carmel High School</td>
<td>$5,035</td>
<td>$10,022</td>
<td>$15,023</td>
<td>$688,094</td>
<td>$23,272</td>
<td>$816,177</td>
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<td>Painted Rock Elementary</td>
<td>$2,049</td>
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<td>$15,245</td>
<td>$15,974</td>
<td>$8,820</td>
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<td>Poway High</td>
<td>$13,114</td>
<td>$7,357</td>
<td>$12,452</td>
<td>$94,424</td>
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<td>Pomadeo Elementary</td>
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<td>$18,092</td>
<td>$18,480</td>
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<td>Rancho Bernardo High</td>
<td>$316,982</td>
<td>$252,882</td>
<td>$11,344</td>
<td>$16,252</td>
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<td>Rolling Hills Elementary</td>
<td>$1,526</td>
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<td>$13,330</td>
<td>$14,816</td>
<td>$5,711</td>
<td>$20,527</td>
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<td>Sundance Elementary</td>
<td>$1,933</td>
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<td>$10,208</td>
<td>$12,902</td>
<td>$6,881</td>
<td>$20,783</td>
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<td>Sunset Hills Elementary</td>
<td>$2,904</td>
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<td>$10,867</td>
<td>$13,086</td>
<td>$6,900</td>
<td>$20,286</td>
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<td>Tierra Bonita Elementary</td>
<td>$1,970</td>
<td></td>
<td>$8,134</td>
<td>$10,150</td>
<td>$7,353</td>
<td>$17,503</td>
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<td>Tarblebox Elementary</td>
<td>$1,300</td>
<td></td>
<td>$6,801</td>
<td>$8,780</td>
<td>$4,780</td>
<td>$14,360</td>
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<tr>
<td>Twin Peaks Elementary</td>
<td>$3,819</td>
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<td>$16,434</td>
<td>$20,253</td>
<td>$9,429</td>
<td>$30,182</td>
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<tr>
<td>Valley View Elementary</td>
<td>$541</td>
<td></td>
<td>$2,054</td>
<td>$22,086</td>
<td>$7,338</td>
<td>$29,500</td>
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<tr>
<td>Westwood Elementary</td>
<td>$3,911</td>
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<td>$15,211</td>
<td>$23,887</td>
<td>$10,304</td>
<td>$34,191</td>
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<tr>
<td>Project Magnt</td>
<td>$6,500</td>
<td>$2,091</td>
<td>$5,144</td>
<td>$8,591</td>
<td>$19,005</td>
<td>$29,096</td>
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<tr>
<td><strong>Total SFID</strong></td>
<td>$59,590</td>
<td>$57,097</td>
<td>$58,779</td>
<td>$543,075</td>
<td>$253,137</td>
<td>$256,253</td>
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<tr>
<td><strong>Total Completed Facilities</strong></td>
<td>$133,380</td>
<td>$57,097</td>
<td>$66,500</td>
<td>$866,177</td>
<td>$209,725</td>
<td>$1,073,574</td>
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Keeping It All In Balance
School Facilities Capital (Bond) Program

Funding
Need
Availability
Keeping It All In Balance
School Facilities Capital (Bond) Program

Funding
Budget
Cash Flow
Budgeting for Capital (Bond) Programs

The purpose of a budget is to:

- **I**dentify all possible sources and uses
- **M**onitor changes
- **C**ontrol the outcome

To Achieve a Financial Goal
Budgeting for Capital (Bond) Programs

According to FCMAT, two reasons (out of 11) why schools fail are related to budgets*

**Inadequate Budget Development**
- Failure to recognize year-to-year trends
- Failure to maintain reserves
- Flawed multi-year projections

**Limited Budget Monitoring**
- Failure to reconcile ledgers
- Poor cash flow analysis and reconciliation
- Inadequate business systems and controls
- Inattention to County Office of Education data
- Failure to review management control reports

*FCMAT’s reasons referred to the general fund, but are applicable to facilities budgets, as well.
Anatomy of a Budget for Capital (Bond) Programs

MASTER PROGRAM BUDGET

FUNDING

Program-Wide Expenses

Program Escalation

Program Loss Reserve

Program Balance

Project A

Project B

Project C, D, E...

A Site Costs
B District and Agency Costs
C Consultant Costs
D Bid Costs
E Construction Costs
F Construction Support Costs
G Furniture & Equipment Costs
H Miscellaneous Project Costs
I Contingency Costs

A Site Costs
B District and Agency Costs
C Consultant Costs
D Bid Costs
E Construction Costs
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Anatomy of a Budget for Capital (Bond) Programs

MASTER PROGRAM BUDGET

FUNDING

- Program-Wide Expenses
- Program Escalation
- Program Loss Reserve
- Program Balance

Project Budgets

- Project A
- Project C, D, E...

A Site Costs
B District and Agency Costs
C Consultant Costs
D Bid Costs
E Construction Costs
F Construction Support Costs
G Furniture & Equipment Costs
H Miscellaneous Project Costs
I Contingency Costs
Project Budget: Approaches

• Begin with need or eligibility & establish the funding estimate
• Or, Start with funding and define scope
• Then, establish broad estimates for expenditures through the use of a detailed Chart of Accounts

**Common Pitfall**: A detailed Chart of Accounts is not always used, so many important costs are missed
Hard Costs vs. Soft Costs

- A budget has three types of costs:
  - Land costs (site acquisition)
  - Hard Costs
  - Soft costs
Hard Costs vs. Soft Costs

• What are hard costs?
  They are the construction costs, usually 65 - 70% of the non-land funding
  – **Common Pitfall:** This number is easily confused with 65 - 70% of the ENTIRE project funding
  – The architect designs to the construction costs, not the entire project cost

• The other 30 - 35% are the soft costs
  – **Common Pitfall:** Not everyone budgets enough for soft costs
Common Pitfalls

Budget Development

• Don’t budget enough for soft costs
• Don’t set aside a Program level reserve for catastrophic events
• Underestimate the need for project contingencies
• Don’t consider inflation – that projects will be constructed over a period of time and there’s an associated cost with that time
Common Pitfalls

Budget Maintenance

• Fail to gather information often and fail to update budgets, so timely course corrections can be made

• Fail to have an accounting system that spans multiple years and multiple projects.
Common Pitfalls

Budget Big Picture

• Fail to look at the big picture – the entire program financial position (MPB)
Common Pitfalls

Project Management and Cash Flow

• Fail to distinguish the difference between budget and cash flow
• Don’t have an effective accounting system that enables multi-year tracking
• Don’t have appropriate reporting necessary for key personnel to effectively manager the Program.
• Don’t reconcile the Facilities accounting system with the Fiscal Services (working with different fund balances)
Common Pitfalls

Audit Proofing the Program

• Fail to establish expenditure tracking that facilitates state reporting requirements (50-06 reports)
• Fail to establish internal controls through effective protocols, procedures and accountability
• Fail to set up a good project filing system so all documents are readily available
Keeping It All In Balance

School Facilities
Capital (Bond) Program

Funding
Budget
Cash Flow
Budget vs. Cash Flow

**Budget**
How much it costs.

**Cash Flow**
When will funding be available to spend?
When will costs be spent?
Uses of a Cash Flow Report

✓ Determine best time to Issue Bonds
✓ Help determine prioritization of projects
✓ Identify funding short fall, need for bridge financing
Factors That Affect Cash Flow

When funding will be Available

• Availability of State Funding
• Ability to pass new GO bonds
• Assessed valuation (AV) of real property in the District – Ability of the District to issue on its existing voter approved bonds
• Interest rate earned on facility fund balances
Factors That Affect Cash Flow

When costs will be spent

• Project Schedules
• Escalation (inflation) rates
• Accuracy of Budgets (both Projects and Program)
• Unforeseen conditions and availability of Project/Program reserves to cover them
The Cash Flow Tool
Solving the Puzzle

Facilities Funding Plan

- Needs Assessment
- Priority Ranking
- Local Financing
- Campaign Strategy
- Ed. Specs
- Attendance Boundaries
- Local Funds
- Taxpayer Groups
- Enrollment Projections
- Town Hall Meeting
- Fund Raising
- State Funding
- Community Survey
- SFP Eligibility
- Teacher/Staff Recommendations
- Employee Survey
- Developer Fee Study
- Demographics
- Other Grants
- Cash Flow Proforma
Questions?

Thank you for attending.

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Sacramento, California
February 21, 2012