<u>Principles for Financial Hardship Projects in a 2020 State School Facility Program</u>

Financial Hardship projects share the same goals as non-Financial Hardship projects in a state school facility program. To that end, we submit the following principles for consideration of Financial Hardship projects in development of a 2020 bond.

- Equity and parity should exist between Financial Hardship projects and non-Financial Hardship projects.
- Qualification criteria are generally sound but the bonded indebtedness threshold should be evaluated.
- Ensure the Financial Hardship status review and approval process is fair, expeditious, and not a barrier to participation.

Equity for Financial Hardship Projects

Financial Hardship projects should receive equitable treatment under the School Facility Program. Financial Hardship projects should not be held to different standards than non-Financial Hardship projects or disadvantaged by program statute, regulations, or policy.

Addressing issues that affect all projects, including Financial Hardship projects, will resolve issues that are particularly pronounced for Financial Hardship projects.

- Grant adequacy is important for all projects, especially Financial Hardship projects. When the grant amount is insufficient to cover actual project costs, Financial Hardship districts do not have a local fund source to backfill and are constrained on the quality, functionality, and sufficiency of facilities they construct. Grant adequacy is relative to geography and the nuances of local markets.
- Evaluate if the state should fund at a minimum “complete” schools or a baseline school. Financial Hardship districts often lack the ability to build complete schools with minimum essential facilities, such as multi-purpose rooms, libraries, gyms, etc.

Financial Hardship Qualification Criteria

Evaluate the bonded indebtedness threshold while retaining other qualification criteria.

- Retain qualification based on status as a county office of education, successful election for the maximum amount allowed under Prop 39 within the previous two years, OR debt capacity of $5 million or less.
- Retain requirement to be levying the maximum allowable developer fee.
- The current benchmark of 60% bonded indebtedness is arbitrary. Examine the option of a sliding scale of state support based on factors such as bonded indebtedness. Districts less than 60% bonded indebtedness may qualify if they demonstrate effort, and receive an adjusted amount of state support (perhaps less than up to 100% of the district share).

Ensure a Fair and Equitable Review and Approval Process

Streamlining the program for all projects will help alleviate issues that are exacerbated by Financial Hardship status.

- Inconsistent and infrequent project processing and apportionments make it difficult for Financial Hardship districts to plan and construct projects. Bridge financing or interfund borrowing can be costly, impractical, or impossible, meaning that many Financial Hardship projects must wait for cash from the state to commence construction.
  - Providing monthly or bimonthly apportionments will help alleviate this.
  - OPSC review of funding applications and SAB apportionment within 90 days of submission will help. This would include separate site and design apportionments as well as adjusted grant apportionments for Financial Hardship projects.
- Retain concurrent review of Financial Hardship status request and funding application (currently in regulation).
- Extend Financial Hardship status approval from 6 months to 12 months, which better aligns with a 12-month fiscal year.
- Provide a reservation of bond authority for Financial Hardship projects that receive a design apportionment, to ensure construction funds will be available once project is designed.
- Adjust the treatment of savings for Financial Hardship projects. If a Financial Hardship district is required to return savings, then the district should receive a proportional return of eligibility/entitlement.