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Contents:

- 1. Schools “Pay No Interest” Lottery**
 - 2. SCE Offers Safety Reminders During Fire Season**
 - 3. The Battle Against Fraud in the Use of American Recovery and Reinvestment Act Funds**
 - 4. By the Way . . . Hispanic Business Magazine Names Los Angeles County Office of Education Superintendent Darline Robles One of Top 100 Influentials**
 - 5. Ask SSC . . . Should COPs Be Refunded to Take Advantage of Today’s Lower Interest Rates?**
 - 6. CalPADS goes up, more deadlines to follow**
 - 7. House expected to consider extension of Child Nutrition Act**
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1. Schools “Pay No Interest” Lottery

Adam Bauer - Fieldman, Rolapp & Associates

Many California school districts have been disappointed as a result of the recent oversubscription of Qualified School Construction Bonds (“QSCBs”). QSCBs are a new financing option created by the America Recovery and Reinvestment Act (“ARRA”) of 2009 and are a form of tax-credit bonds to promote the construction and improvement of public schools. When an investor purchases a QSCB they receive a federal tax credit instead of a full interest payment. This reduces debt service paid by the school district. Depending on the credit quality of the school district and the type of financing the interest cost could be as low as zero percent. Generally, proceeds of QSCBs are to be spent on constructing, rehabilitating, or repairing a public school facility, or for acquiring land on which such facility is to be constructed or repaired.

It was announced on July 3, 2009 that the California Department of Education (“CDE”) would accept applications for QSCB allocations. The 11 largest school districts within the State, which have already received allocation from the federal government, were not a part of this allocation process. The CDE received 231 allocation applications totaling \$3.66 billion. The available allocation, however, was only \$700 million. Due to the oversubscription, the CDE held a lottery on August 28th to determine which school districts would receive allocations for 2009. As a result of the lottery, 43 school districts received allocations in amounts ranging from \$1 million to \$25 million. The average allocation per school district is \$16.3 million.

For the fortunate school districts that received allocations, the race begins to issue QSCBs prior to the close of the calendar year 2009. The school districts that did not receive a 2009 allocation were ranked to determine which would receive allocation if a school district that had received an allocation could not utilize it. However, such determination must be made relatively soon or the unused allocation will be rolled into the 2010 allocation.

Further, school districts preparing for General Obligation Bonds (“GO Bonds) Elections in 2010 are hopeful that the 2010 QSCB allocation process will occur earlier in the year. Earlier allocation will enable them to incorporate the QSCB allocation into their election materials, have enough time to get voter approval in either June or November 2010, and still issue QSCB GO Bonds in calendar year 2010. Given the high demand for school facilities statewide, we expect a strong demand for the 2010 QSCB allocation.

2. SCE Offers Safety Reminders During Fire Season

Southern CA Edison POWER BULLETIN - VOL. 9 No. 9 - September 2009

- Never use candles (which can start fires) during a power outage; use battery-operated lights and keep them in offices and homes.
 - Turn off and unplug any unnecessary electrical equipment, especially sensitive electronics, during a widespread outage.
 - If you are without electrical service in your business or home, leave one light switch in the "on" position to signal when electrical service has been restored. This will help limit stress on the system when SCE restores power.
 - If you see downed or suspended power lines, call SCE and report it to police and fire departments immediately. NEVER touch or try to move a downed line.
 - Only use a "C" class fire extinguisher for an electrical fire. NEVER throw water on an electrical fire, as it could cause electrocution.
 - If possible, stay away from areas impacted by fire damage to remain safe (because traffic signals could be out and poles could be blocking streets) and to avoid interfering with repair crews.
 - NEVER connect a portable generator directly to a power line.
- For more tips on fire safety, visit www.sce.com/heat and www.sce.com/safety.

3. The Battle Against Fraud in the Use of American Recovery and Reinvestment Act Funds

Lewis Wiley, Jr., and Michele Huntoon, CPA - SSC

By now, the school business community is well aware of the \$4.9 billion of the American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund (SFSF) received by California's K-12 schools. The SFSF dollars are flexible, with one of their allowable uses being to help offset the costs of modernization, renovation, or repair of facilities for local educational agencies (LEAs).

During the Federal ARRA Training for the State of California, sponsored by the California Office of Inspector General (OIG), attorneys from several federal agencies shared statistics related to fraud in federal programs. In the pre-ARRA era, the federal government estimates fraud in federal programs to be between 12% and 15%. With the passage of the ARRA, the federal government expects fraud in the SFSF to be in the range of 7% to 10%.

As LEAs expend SFSF funds toward facilities, they will find themselves in the normal competitive bidding process with vendors. LEAs have a right to expect from this process the best goods and services at the lowest price; however, the statistics prove this is not always true.

"Price fixing" and "bid rigging" are two examples of fraud on the federal government's watch list. "Price fixing" is collusion among bidders to raise, fix, or otherwise maintain the price at which their goods or services are sold; "bid rigging" is the method where conspiring vendors artificially increase prices where purchasers acquire goods or services by soliciting competing bids. The conspirers agree in advance who will submit the winning bid.

In an effort to combat fraud, the Antitrust Division of the United States Department of Justice recommends that LEAs require a "certification of independent price determination" to be submitted with all bids, something many purchasing departments already have incorporated in their bidding procedures. Although it is not the silver bullet to eliminating fraud, the certification serves as an effective deterrent to criminal behavior among competitors. In case your LEA does not utilize such certification, we have made the certification available through a link on the School Services of California, Inc., website at <http://www.sscal.com/pdf/westlaw-certificate.pdf>.

The need for a project manager (PM) increases during times such as these. Depending on the size of your LEA, you may have an internal PM or an external PM. If an external PM is being utilized, it is important that the LEA maintain close communications with the vendor and receive copies of all paperwork related to the LEA's projects. This will ensure that internal controls are in place and can be relied upon in order to identify problems sooner than later.

The comments delivered by the OIG, Federal Bureau of Investigation, U.S. Attorney's Office, and California Attorney General were not a subtle message to be careful. They fully expect that there will be businesses that will take advantage of this large, one-time influx of government funding through fraudulent means. The situation is ripe for fraud—the economy is down, and desperate times often lead to desperate measures. Those that would not have thought about such activities in the past may turn their sights on what may be viewed as "easy money" when there is no—or very little—money being earned. This is definitely not the time to let down your guard as it relates to best business practices in safeguarding assets.

4. By the Way . . . Hispanic Business Magazine Names Los Angeles County Office of Education Superintendent Darline Robles One of Top 100 Influentials - SSC Article

The profile in the publication states, "Since 2002, Dr. Robles has led the nation's largest regional education service agency—a total of 80 school districts and some 1.7 million students. A graduate of California State University, Los Angeles, she earned her Master's Degree in education at Claremont and her doctorate in education policy and administration at the University of Southern California. Throughout her 30-year career, she has focused on ensuring quality education for all children."

Hispanic Business Magazine, the flagship publication of Hispanic Business Inc., has established itself as one of the premier business publications for the Hispanic market. With a primary circulation of 265,000 and a total audience of more than one million readers, Hispanic Business reaches CEOs, business owners, corporate decision makers, and professionals in all sectors, including business, law, accounting, healthcare, government and engineering.

To see the Top 100 Influentials go to <http://www.hispanicbusiness.com/top100influentials/>.

School Services of California Inc., congratulates Dr. Robles on her well-deserved honor.

5. Ask SSC . . . Should COPs Be Refunded to Take Advantage of Today's Lower Interest Rates?

Ron Bennett, John Gray, and Maureen Evans - SSC

Q. I have a couple of questions regarding what action we should take with respect to our long-term debt in the form of Certificates of Participation (COPs). First, should our COPs be refunded because they were issued at a higher interest rate than what we could get today? And second, are there other considerations in terms of flexibility that should be considered? By the way, I am in a declining enrollment district.

A. As to the question of whether or not the COPs should be paid off early, there needs to be some careful analysis. The first part of that analysis is a math problem in which the equation is simple, but the assumptions are not. We will assume that you could make enough reserves available from capital accounts, sinking funds, COP reserve accounts, and other sources to pay off the COPs if you decide to do so. There are then two other assumptions we must make: (1) what will we be able to earn on the cash balance if we do not pay off the COP, and (2) what will the cost of carrying the COPs be?

Over the life of the COPs, the cost is fairly predictable. You would be able to accurately compute the cost of the COPs, at least until the first call date for each series. The traditional spread between the nontaxable rate you would be paying on the COPs and the higher taxable rate you would be earning on the reserves if they were invested instead of used to pay off the COPs is generally expected to be about 1% to 2% over time. In the short term, this may not be true, but over the life of the issue, the relationship should hold. You would also need to discuss with your financial advisor and bond counsel any yield restrictions due to federal arbitrage limitations that might limit the amount of earnings that could be retained on any balance generated by the COPs themselves. Nonetheless, cash-on-cash, the COPs should more than carry themselves.

However, there are other reasons that might lead you to conclude that the COPs should not be paid off early. California is experiencing difficult economic times. Things we have grown to take for granted, like funding increases for cost-of-living adjustment (COLA), average daily attendance (ADA) growth, and categorical programs, have not occurred and are not certain anymore. This year and last, we have seen zero COLAs and additional significant reductions to the revenue limit, reductions in categorical program dollars, cash deferrals, and, in your district, loss of enrollment and ADA. Cash on hand provides a buffer against all of these things. Even one-time dollars can be used to cover unexpected surprises, which in our business tend to be most unpleasant, for a temporary period while permanent adjustments are made. Cash on hand provides a safety net for preservation of student programs that might not otherwise be available if the State Budget crisis continues.

For your situation relating to state funding combined with your declining enrollment, absent any other mitigating circumstances of which we are not aware, on balance, there is probably better justification for holding onto the cash than doing an early payoff of COPs. In the event that economic times improve, you may choose to prepay at some later date, but that option does not appear to be advantageous at the present time. Retaining the cash provides the greatest flexibility for your specific district.

In the event your district makes a decision to refund COPs, remember that Education Code Section 17150.1 requires that all school districts must submit their public disclosures of nonvoter-approved debt to the county office of education and the county auditor no later than 30 days prior to the date on which the governing board will take action on the proposed debt issuance (see "Changes to Legal Requirements for Public Disclosure of Nonvoter-Approved Debt Effective January 1, 2009" in the December 5, 2008 Fiscal Report.)

6. CalPADS goes up, more deadlines to follow

Tom Chorneau – SI&A

Despite skepticism that aggressive deadlines could be met, California's much anticipated longitudinal student data system went live Monday with more than 90 percent of the state's school districts and charters participating.

The California Longitudinal Pupil Achievement Data System, conceived more than a decade ago and launched as a serious project in 2004, will serve as the cornerstone of the state's system for improving accountability by tracking individual student records.

The milestone reached Monday means that LEAs will be able to use the system for Wednesday's official enrollment tabulation, said Keric Ashley, director of data management at the California Department of Education.

Student identifier information can now be filed into the system including – gender, birth date, race/ethnicity, place of birth as well as current enrollment, subgroup data and eligibility for Title III Immigrant funding.

By end of November, districts will be expected to have begun providing curriculum information including course enrollment; English language services and certificated staff data.

Ashley said districts are currently checking to make sure that data imported from the California School Information Services system is accurate and familiarizing themselves with the program.

LEAs will have about eight weeks to complete the enrollment input.

Jack O'Connell, State Superintendent of Public Instruction, said in a letter to districts Monday that the new data system is critical to the state's ability to calculate more accurate dropout and graduation counts.

There is also great expectation that CalPADS and its companion system for tracking teacher data, the California Longitudinal Teacher Integrated Data Education System will enable the state to better carry out the current goals of the No Child Left Behind Act as well as the newly established aims of the Obama administration.

O'Connell noted that district support staff need to first to make sure that data imported from the California School Information Services system is accurate. It is also critical, he said, for administrative personnel to keep up with the CDE's training – most of it will be offered via WebEx to allow staff to work from their desk.

"The amount of functionality that will be introduced this year is extremely ambitious," O'Connell said. "In other states such functionality has typically been implemented over the course of several years.

"As with any transition, we fully expect there to be some challenges and bumps along the road through this first year," he said.

7. House expected to consider extension of Child Nutrition Act

Allen Young – SI&A

The House of Representatives is expected to vote today on providing a temporary, one-year extension to the Child Nutrition and Women, Infants, and Children Reauthorization Act.

Congress is facing a deadline later this month to extend the popular service that offers high quality meals to more than 32 million children through schools and child care programs.

Although lawmakers and child advocates had hoped that a more comprehensive overhaul of the act could have been negotiated by now, most are satisfied with the temporary extension that will meet critical needs and allow time to explore options.

"We would have loved to see something happen before the bill expired, but (we) understand there are competing issues," said Cathy Schuchart, vice president for child nutrition and policy at the School Nutrition Association, a national nonprofit that advocates for school food service employees.

Schuchart said her organization is advocating that if, and when, Congress takes up reauthorization three new provisions be included:

- A national set of training standards for school nutrition personnel that would include guidelines on safety and sanitation.
- New school food quality standards that would be developed by the U.S. Department of Agriculture,
- An increase of federal support for National School Lunch program of 35 cents per meal.

“It all comes down to money,” said Schuchart, noting that an overhaul on school nutrition must compete with other high-priority issues facing Congress such as health care reform.

Last July, the federal government increased the reimbursement for free-and-reduced lunch by 11 cents per meal to \$2.70 for schools with at least 60 percent of students eligible to participate in the program.

California taxpayers contribute an additional 22 cents per meal, although because of budget cuts – that support has been cut back the last two school years. In 2008-09, the payment dropped down to 6 cents by year’s end. .

Other child nutrition bills currently pending in Congress include:

S.1343 by Sen. Sherrod Brown, D-Ohio, would establish the Hunger Free Schools Act that allows districts serving large numbers of children who qualify for free and reduced priced meals, to receive federal reimbursement based on socioeconomic data, like the Census, rather than individual student applications. The bill would also require districts to utilize data from Medicaid and State Children’s Health Program to directly qualify children for free school meals.

S. 990 by Sen. Debbie Stabenow, D-Michigan, would expand the afterschool meal program nationwide. The current program, which allows afterschool providers to provide meals to children under 18 regardless of family income, currently extends to 10 states – California is not one of them.

S. 1226 by Sen. Robert Casey, D-Pennsylvania, would allow schools and local educational agencies to receive special assistance payments for free or reduced price meals derived from survey, welfare, or tax data rather than individual applications.