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## **II. COUNTY OFFICE RESPONSIBILITIES**

**A.** Based on the review of the various legal requirements for the county office of education in relation to the cash accounts of the district, there are two areas of responsibility for the county:

1. Responsibility to approve the orders on the funds of school districts.
2. Responsibility to prescribe alternate procedures for fiscally accountable districts.

**B.** These responsibilities of the county are addressed in the following procedures:

1. P-012            Approving District Orders
2. P-013            Fiscal Accountable and Fiscally Independent Districts

### **C. Cash Reconciliations**

1. Each month, or more often as needed, the county office of education receives a report from the county treasurer on the cash balances for each district in the county.
  - a. These reports from the county treasurer are the information that school districts need to reconcile the cash accounts in their general ledger to their bank account, the county treasury.
  - b. In some counties, the county office staff reconcile the district's general ledger cash account to the county treasurer's cash balances.
  - c. In other counties, the county treasurer's reports are provided to the districts and the district staff reconcile their general ledger to the county treasurer.
2. There is nothing in the Education Code that requires counties to reconcile these cash accounts. Those counties that perform the reconciliations do this as an additional service to their districts and as a tool in their fiscal oversight.
3. If the county doesn't perform the cash reconciliation, they will often request a copy of the district's reconciliation for their AB 1200 review (one tool to assess the adequacy of the district's cash flow).

**D. Cash Monitoring**

1. To ensure that the districts have sufficient funds to meet payroll and to make vendor payments, county offices of education may monitor the cash balances for their districts.
2. The county may monitor the cash balances on a daily, weekly, or monthly basis.
3. The county may also assist the district in determining when to draw down their tax and revenue anticipation note (TRANS) for cash flow purposes.

**III. LEGAL CITATIONS****A. Government Code**

1. Sections 27000-27013

Provide laws on county investments and disbursements from the county treasury.

2. Sections 53600 –53609

Provide laws on investing public funds

3. Sections 53630-53686

Define terms, responsibilities of county treasurer, laws on deposits with county treasurer, and eligible securities.

**B. Education Code**

1. Sections 41000 – 41003

Provide laws on deposits of district funds into the county treasury.

2. Sections 41015 - 41016

Authorize the district or county office of education to invest surplus moneys not required for the immediate necessities of the district or county office of education.

3. Section 41017

Authorizes the school district or county office of education to deposit funds in a local bank to serve as a clearing account for miscellaneous receipts.

4. Section 41018

Authorizes a school district or county office of education having an average daily attendance of 100,000 or more to deposit funds received from the temporary rental of property pending construction of school facilities on the property into a bank account.

5. Education Code Sections 42620 – 42633

Provide laws on temporary transfers to school districts and county offices of education that do not have sufficient money to its credit to meet current operating expenses.

6. Education Code Sections 42630 – 42652

Provides laws on the payment of money from the funds of a school district.

7. Education Code Sections 42820 – 42821

Provide laws on the revolving cash fund.

8. Education Code Sections 42670 – 42678

Provide laws on orders and warrants when moneys are not available.

9. Education Code Sections 42690 - 42694

Provide laws on optional method - registering warrants.

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**I. OVERVIEW**

- I. School district and county office financing can be accomplished by a variety of different debt instruments; however, COEs do not currently have access to voter-approved debt instruments. When determining the best type of financing, many factors need to be considered including cost, time line, market conditions, community support and the complexity of the debt instrument. Although issuing debt can be an appropriate method of financing specific projects, prudent fiscal management and consistent monitoring of debt is required to preserve a district's creditworthiness, budget and fiscal solvency.
- II. Types of debt financing include the following:
  - a. Voter-approved (not available to COEs)
    - i. General obligation bonds
    - ii. School facilities improvement district (SFID)
    - iii. Mello-Roos/ Community Facility District (CFD)
    - iv. Parcel taxes
  - b. Non-Voter-Approved
    - i. Certificates of participation (COPs)
    - ii. Lease purchases secured by real property
    - iii. Qualified zone academy bonds (QZABs) or other similar funding mechanisms such as qualified school construction bonds, QSCBs)
    - iv. Revenue Bonds
    - v. Any other debt instrument secured by real property and not subject to voter approval

**II. NON-VOTER-APPROVED DEBT**

- I. According to Education Code Section 17150 and Assembly Bill (AB) 2197 (Chaptered 128/2008), a school district is required to disclose all issuances of non-voter-approved debt secured by real property to the county superintendent of schools and the county auditor at least 30 days prior to the district's governing board's approval of any such issuances, including the following:
  - Certificates of participation (COPs)
  - Lease purchases secured by real property
  - Qualified zone academy bonds (QZABs) or other similar funding mechanisms (such as qualified school construction bonds, QSCBs)
  - Revenue bonds
  - Any other debt instrument secured by real property and not subject to voter approval
  
- II. School districts are required to furnish information regarding the debt issuance, including the following:
  - Repayment schedules
  - Evidence of ability to repay
  - Information needed to assess the anticipated effect of the debt issuance, including the cost of issuance
  - A. Within 15 days of receipt of the information, the county superintendent of schools and the county auditor are authorized to comment publicly to a district's governing board regarding the district's capacity to repay the debt obligation, based on the information provided.
  - B. Whenever possible, the county office of education should work with the county auditor to ensure that both entities are requesting the same information from local school districts.
  
- III. County boards of education have a similar disclosure obligation, and the state superintendent of public instruction (SPI) has a similar ability to comment publicly.
  - A. County offices of education are required to notify the SPI at least 30 days prior to the county board of education's approval of the issuance of COPs or other non-voter-approved debt instruments secured by real property. County offices of education are required to furnish information regarding the debt issuance, including the following:
    - Repayment schedules
    - Evidence of ability to repay

- Information needed to assess the anticipated effect of the debt issuance, including the cost of issuance
- B. Within 15 days of receipt of the information, the SPI is authorized to comment publicly to the county board of education regarding the county office's capacity to repay the debt obligation, based on the information provided.
- IV. The proceeds from COPs and other non-voter-approved debt secured by real property cannot be used for a district's general operations, regardless of the district's budget certification.
- V. County Office Responsibilities
- A. The county office of education is encouraged to work with the county auditor's office to create a form that is acceptable to both for the district's reporting requirements. A debt issuance disclosure worksheet is available on FCMAT's Web site at: <http://wwwstatic.kern.org/gems/fcmat/DisclosureofNVAdebtFINAL2.xls>. The worksheet asks for the following:
- Amount and date of issuance
  - List of all parties involved in the transaction
  - Projects to be financed/purpose of issuance
  - Dates funds are needed
  - Repayment sources
    - Contingency plan if the repayment sources do not materialize or the final agreement costs more than originally anticipated
  - Loan information
    - Amount to be financed
    - Term
    - Amortization schedule
    - Cost of issuance
    - Interest rate
  - Multiyear projections
    - Effect of proposed debt in subsequent years
  - Preliminary official statement
  - Debt repayment schedule
  - Interim financing
  - Effect of debt on unrestricted reserves

- B. Before issuing any non-voter-approved debt, districts with qualified or negative budgets must obtain COE approval, and COEs with qualified or negative budgets must obtain SPI approval.

### **III. VOTER-APPROVED DEBT— DEBT SERVICE FUNDS**

- A. The California School Accounting Manual identifies two debt service funds that local educational agencies (LEAs) are required to use under certain circumstances.

1. Tax Override Fund
2. Bond Interest and Redemption Fund

#### **B. Tax Override Fund**

1. The tax override fund is used to account for the repayment of voted indebtedness levies (other than bond interest and redemption fund repayments) that are financed from ad valorem tax levies.
2. Taxes are levied and recorded in this fund for the following purposes:
  - a. State school building loan repayments (Education Code Section 16090).
  - b. Payments to the original district for the acquisition of property (Education Code Section 35576).
  - c. Compensatory education housing repayments (Education Code Section 16214).
  - d. Lease-purchase payments (Education Code Section 17409).
  - e. Construction of exceptional children's facilities repayments (Education Code Section 16196).
3. The board of supervisors of the county computes and levies taxes on the property in the district sufficient to raise for the district the amount of money needed to cover the annual debt payments.
4. As the tax levies are collected, they are deposited in the tax override fund.
5. When the payments come due, they are paid from the taxes that have been collected and deposited into the tax override fund.

#### **C. Bond Interest and Redemption Fund**

1. The bond interest and redemption fund is used for the repayment of bonds issued for an LEA (Education Code Sections 15125-15262).

2. The principal and interest payments are paid by the county treasurer from the taxes levied by the board of supervisors and deposited into the bond interest and redemption fund.
3. Education Code Section 15140 (c) requires the governing board of the school district or community college district to transmit the resolution authorizing the sale of the bonds and the debt service schedule to the county auditor and county treasurer in sufficient time to permit the county to establish tax rates and necessary funds or accounts for the bonds.

## **II. COUNTY OFFICE RESPONSIBILITIES**

- A.** The tax levies deposited into the tax override fund and the bond interest and redemption fund are used to make the debt service payments on general obligation bonds and other obligations.
- B.** The county board of supervisors is responsible to levy the tax based on debt service schedules from the district or other repayment schedules.
- C.** The county auditor will maintain the books for the bond interest and redemption fund during the year.
  1. In some counties, the county auditor records the year-end balances on the SACS forms and the county office of education enters this information into the SACS software on behalf of the districts.
  2. In other counties, the county auditor provides an end of the year financial report to the county office of education. The county office of education will then enter the information into the SACS software for the districts or provide the financial report to the districts to enter the data.
  3. The county office of education should caution the districts to confirm that the payments made from the bond interest and redemption fund agree to the debt service amounts on the amortization schedules.
- D.** The district usually maintains the books for the tax override fund.

## **LEGAL CITATIONS**

Education Code

Sections 17150 – 17150.1, 42133.5

