From:	Lena Young-Gallardo
To:	BSD-CBO List; BSD-FinMgrsMeet List
Cc:	BSD-ExecutiveStaffList
Subject:	Board Action Required: Interfund Borrowing FY 2024-25
Date:	Monday, April 1, 2024 4:06:31 PM
Attachments:	Bulletin - Interfund Borrowing FY 2024-25.pdf Certification of Board Minutes - Temporary Loan Resolution.pdf FCMAT.pdf Sample Resolution Intra-District Borrowing.pdf GL Entries for Interfund Borrowing.pdf image001.png

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Happy Monday!

Please see the attached bulletin and attachments regarding interfund borrowing for fiscal year 2024-25. Districts will need to take board action and return to District Financial Services by July 1, 2024.

Thanks,
Lena

Transforming lives through education
Lena Young-Gallardo, Director
District Financial Services
San Bernardino County Superintendent of Schools
760 E. Brier Drive, San Bernardino, CA 92408
P: 909.388.5701 | F: 909.388.5735
http://www.sbcss.k12.ca.us

San Bernardino County Superintendent of Schools
Transforming lives through education

Ted Alejandre
County Superintendent

DATE: April 1, 2024

TO: Chief Business Officials and Directors of Fiscal Services
San Bernardino County School Districts (K-12, Community Colleges, ROP's)

SUBJECT: ACTION REQUIRED: BOARD RESOLUTION FOR TEMPORARY INTERFUND BORROWING FOR FISCAL YEAR 2024-25

As discussed, each year, the San Bernardino County Auditor-Controller/Treasurer/Tax Collector will allow payroll warrants to be drawn against a specific fund – even if that fund's cash balances are insufficient – if the aggregate cash balances in the district's funds are sufficient to cover the expense. In exchange for this allowance, the district's governing board must pass (and renew annually) a resolution authorizing temporary interfund borrowing between specific funds (or all funds). *Only* the funds listed in the district's resolution will be considered when calculating the aggregate cash balances of the district for this purpose. **We strongly suggest that your resolutions include "All Available Funds", to cover all contingencies.**

It is time to renew your Board resolutions for Fiscal Year 2024-25. Attached is a sample board resolution, as well as the necessary Board Certification Form, applicable Education Code 42603, guidance on making the requisite general ledger entries, and FCMAT's Fiscal Alert regarding the dangers of borrowing from bond proceeds.

It is imperative that your board adopts the resolution for the next fiscal year as soon as possible and send all forms to District Financial Services by July 1, 2024. DFS will be collecting these forms and resolutions on behalf of the Auditor-Controller/Treasurer/Tax Collector; thus, you need not send copies of the resolution to their office.

Important to note:

- Although District Financial Services does allow temporary interfund borrowing from Bond Building Fund 21, the Auditor-Controller/Treasurer/Tax Collector does not include cash from Fund 21 when calculating your aggregate cash balances. Thus, an actual transfer must be made prior to the payroll settlement date if you intend to use Fund 21 for your short-term cash flow needs. **DFS will require a written certification from your Chief Business Official, acknowledging you have been advised to consult with your district's bond counsel prior to borrowing from bond proceeds. (See attached Fiscal Alert from FCMAT, which was sent to the districts in October 2019.)**

- A resolution authorizing temporary interfund borrowing is required if your district will be applying for a Temporary Transfer of Funds (aka TTF or Constitutional Advance) from the County. Districts need to take the resolution to the Governing Board prior to, or in conjunction with, the resolution approving a request for a Temporary Transfer of Funds. Business Advisory Services provides guidance on TTF.

- Again, we strongly suggest that your resolution include "All Available Funds" to cover any unanticipated cash flow issues.

- Lastly, bear in mind that temporary interfund borrowing is subject to the provisions of Education Code 42603. Please pay special attention to the highlighted/underlined areas, as our office will be checking to ensure these conditions are met:

  The governing board of any school district may direct that monies held in any fund or account may be temporarily transferred to another fund or account of the district for payment of obligations. The transfer shall be accounted for as temporary borrowing between funds or accounts and shall not be available for appropriation or be considered income to the borrowing fund or account. Amounts transferred shall be repaid either in the same fiscal year or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year. Borrowing shall occur only when the fund or account receiving the money will earn sufficient income, during the current fiscal year, to repay the amount transferred. No more than 75 percent of the maximum monies held in any fund or account during a current fiscal year may be transferred.

If you have any questions, please contact Rhonda Brooks at Rhonda.Brooks@sbcss.net.

Sincerely,

Ted Alejandre
County Superintendent of Schools

Signed Lena Young-Gallardo
Lena Young-Gallardo, Director
District Financial Services

LYG:kb

Attachments:
Sample Resolution
Certification of Board Minutes-Temporary Loan Resolution
Instructions for General Ledger Entries
FCMAT Fiscal Alert re: Interfund Borrowing from Bond Proceeds

San Bernardino County Superintendent of Schools
Transforming lives through education

Ted Alejandre
County Superintendent

San Bernardino County Superintendent of Schools
District Financial Services

CERTIFICATION OF BOARD MINUTES
TEMPORARY LOAN RESOLUTION

SCHOOL DISTRICT: _____

SUBJECT MATTER: **AUTHORIZATION FOR TEMPORARY BORROWING BETWEEN FUNDS**

DATE OF ACTION: _____

IN ACCORDANCE WITH PROVISIONS OF LEGAL CODES FOR THE STATE OF CALIFORNIA, THE GOVERNING BOARD OF THE NAMED SCHOOL DISTRICT/COMMUNITY COLLEGE DISTRICT, HEREBY APPROVES AND ADOPTS THE ACTION DESCRIBED BELOW:

TEMPORARY BORROWING BETWEEN THE FOLLOWING FUNDS: _____

FISCAL YEAR: _____

LIMITATIONS: _____

AUTHORITY: X EDUCATION CODE SECTION: 42603

_____ GOVERNMENT CODE SECTION: _____

_____ OTHER SECTION: _____

SUPPORTIVE DATA: COPY OF BOARD RESOLUTION

I CERTIFY, UNDER PENALTY OF PERJURY, THE FOREGOING STATEMENTS TO BE TRUE AND CORRECT.

_____

SIGNATURE: GOVERNING BOARD DESIGNEE TITLE DATE

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Alert

October 2019

Interfund Borrowing Using Bond Proceeds

This Fiscal Alert addresses the practice of interfund borrowing using voter-approved and restricted general obligation bond proceeds. This guidance is provided in response to questions from county offices and school districts throughout California, and was recently addressed by the California Debt and Investment Advisory Commission (CDIAC) in an article titled "California School Finance: The Practice of Borrowing from Bond Proceeds." What follows is a summation of the guidance provided by CDIAC. This Fiscal Alert should be considered as analysis and not legal advice.

Background

Borrowing from other funds to satisfy temporary shortfalls in operating cash is common among California school districts. Education Code Section 42603 allows the governing board of a school district to temporarily transfer monies held in a fund of the school district to pay obligations in another fund. The provision does not limit this authority to particular funds, and includes no specific exclusions for funds holding restricted dollars.

Traditionally, the purpose of interfund borrowing has been to finance temporary cash shortfalls that occur before property taxes are received. The most common reason for interfund borrowing is the disharmony between the timing of revenues and expenditures. With the receipt of property taxes occurring at two main intervals during the fiscal year, the use of interfund borrowing has allowed districts to mitigate the associated cash flow implications and meet current financial obligations, including expenses related to personnel. Moreover, following the Great Recession, state-apportionment deferrals greatly increased the need to use available cash in other funds to temporarily support the general fund.

Districts that have funds available often prefer to borrow internally rather than from a financial institution since the practice is generally faster and less costly. To accomplish this, a district must prepare an annual resolution for governing board approval before moving the cash between district funds.

School districts must use borrowed funds to pay off existing obligations and cannot appropriate the funds for other uses. Section 42603 limits districts from transferring between funds if the receiving account will not accumulate sufficient income in the current fiscal year to repay the borrowed funds. Generally, transferred funds must be repaid within the same fiscal year, or in the following fiscal year if borrowed within the last 120 days of the current fiscal year.

FCMAT

Michael H. Fine
Chief Executive Officer

1300 17th Street - City Centre
Bakersfield, CA 93301-4533
Telephone 661-636-4611
Fax 661-636-4647

755 Baywood Drive,
Second Floor
Petaluma, CA 94954
Telephone 707-775-2850
www.fcmat.org

Administrative Agent
Mary C. Barlow
Office of Kern County
Superintendent of Schools

Relevant Issues

The benefit of these borrowings may be overshadowed by the risks a district assumes when it transfers voter-approved and restricted general obligation bond proceeds to satisfy temporary shortfalls in operating funds. Any district seeking to use bond proceeds for temporary borrowing should carefully consider these risks.

1. Loss of Tax-Exempt Status for Bonds
   Bonds that have been issued as tax-exempt investments may lose the preferable tax status if the proceeds are not spent in accordance with U.S. Treasury regulations, which include restrictions on tax-exempt general obligation proceeds for short-term "working capital" purposes. A loss of tax-exempt status can affect both the price and marketability of the bonds, can have an adverse impact to investors who purchased bonds expecting to shelter their interest income from taxes, and may require an issuer to pay more for future tax-exempt borrowings.

2. Loss of Direct Subsidy
   In the case of Qualified School Construction Bonds (QSCBs) and Build America Bonds (BABs), interfund borrowing may result in the loss of the direct subsidy payments. The provisions governing the use of these proceeds require them to be used for a designated project, such as "construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility is to be constructed." Loss of the subsidy can affect the underlying value and credit quality of the bonds and require the issuer to meet debt service obligations using other funds.

3. Legal Considerations
   The use of bond proceeds outside of their intended capital purpose may violate state law. School districts may issue general obligation bonds under the authority of Proposition 39, which requires that an issuer specify the purposes of general obligation bond proceeds and may not spend the proceeds "for any other purpose, including teacher and administrator salaries and other school operating expenses." Districts issuing bonds pursuant to Proposition 46 are required to use the proceeds for "real property and improvements." In both cases, using the funds as working capital, even temporarily, fails to fulfill these obligations. As well, Education Code Section 15100 establishes permitted purposes for proceeds including construction, repair, restoration, furnishment, and equipment. Section 15146 prohibits the use of proceeds for purposes other than those specified at the bond's issuance. Therefore, interfund borrowing involving a transfer of general obligation bond proceeds to funds with expenditures outside of the designated capital project for which the bonds were issued may violate these sections of the Education Code.
   While Education Code Section 42603 broadly allows for the temporary transfer of funds in any fund or account for payment of obligations, this section may be contradicted by the restrictions imposed by sections 15100 and 15146. Section 42603 may also be in conflict with the California Constitution, Article XIII A, if an interfund borrowing involves general obligation bond proceeds transferred to

a general operating account that pays teacher and administrator salaries or other operating expenses. Based on principles of statutory construction, which include specific language that overrides potentially contradictory general language in the same or a different statute, the authority provided districts by Section 42603 to conduct interfund borrowing may be preempted and inapplicable to the extent that it conflicts with federal law or the California Constitution.

4. Disclosure Violations

   Federal regulations impose specific disclosure and anti-fraud requirements on certain municipal market participants. Failure to annually disclose operating information and audited financial statements violates Securities and Exchange Commission (SEC) Rule 15c2-12. Additionally, if a municipal entity does not disclose the full amount or effect of material information, such as a transfer of bond proceeds, in bond offering documents it may also constitute a material misrepresentation or omission. If the SEC deems these omissions to be a failure to disclose material facts, it may initiate an enforcement action against the district.

   Defending against such actions may cause substantial financial and organizational risk.

Apart from legal and regulatory requirements, interfund borrowing may hinder a district's access to the capital markets and the community's support of its educational and facility goals. In various ratings reports, the rating agencies cited significant or increased reliance on interfund borrowing as an indicator of the issuer's weakened financial position and used this fact, in part, to justify a ratings downgrade.

FCMAT also considers interfund borrowing when analyzing a district's fiscal condition since this may be an indicator of existing or emerging financial problems. Poorly timed transfers from bond funds can cause delays to projects funded by bond proceeds and may ultimately result in additional costs either from project financing or penalties for failing to meet project deadlines.

Borrowing from a bond fund may also erode the public's trust in the school district, and could affect the district's ability to seek voter approval for future issuances. Despite the temporary nature of the loan, the public may question the district's use of the proceeds and its ability to repay the loan fully and timely.

Districts have several alternatives that are preferable to borrowing from bond proceeds.

1. Tax Revenue Anticipation Note (TRAN)

   The most common method to mitigate a cash shortfall is a TRAN, a short-term note that may be issued by the district or the county board of supervisors, on its behalf, and secured by anticipated tax revenues to be collected in the same fiscal year. TRAN funds, typically held in a "proceeds" account, may be used for any purpose, including current expenses, capital expenditures, repayment of indebtedness, and investment.

2. The County Superintendent of Schools
   A district may borrow from the county superintendent of schools, with the approval of the county board of education. Funds are issued at the county office's discretion and are subject to availability. Funds must be repaid within the same fiscal year.
3. The County Treasurer
   School districts may also seek to borrow against future payments to carry out facilities repairs. To do so, the district must submit a resolution to the county board of supervisors requesting a loan. Following the board's approval, the county treasurer's office disburses the funds to the district. The amount disbursed is limited to 85% of what the district accrues in the current fiscal year.
   Districts may also address cash shortfalls by undertaking a constitutional advance of property tax revenues. The governing board of a school district may submit a resolution to the county treasurer requesting an advance on tax revenues. Repayment of the advance is made from tax revenues accruing to the district later in the fiscal year. The advance may not exceed 85% of the district's anticipated property tax revenues for the forthcoming fiscal year.

Conclusion

While recognizing that interfund borrowing can be useful for school districts to remedy cash flow shortfalls, borrowing from bond proceeds poses a substantial risk to issuers and districts alike. With other options available to mitigate a temporary cash shortage, districts should use alternative means to meet general obligations and avoid using bond proceeds for temporary borrowing.

TEMPORARY INTERFUND LOANS - GENERAL LEDGER TRANSACTIONS

Example 1: Assume the district borrows $3,000,000 from fund 35.

1. The district must prepare an interfund transfer to record the loan. (The system automatically debits the Cash Account 9110 in fund 01 and credits cash account in fund 35.)

To record the loan:

DATE	OBJECT TITLE	SACS ACCOUNTING STRING	DEBIT	CREDIT
x-x-xx	Temporary Loan between funds	01-0000-0-0000-0000-9648		3,000,000
	Temporary Loan between funds	35-9723-0-0000-0000-9648	3,000,000	

2. The district must prepare an interfund transfer to repay the loan. (The system automatically debits the Cash Account 9110 in fund 35 and credits cash account in fund 01.)

To repay the loan:

DATE	OBJECT TITLE	SACS ACCOUNTING STRING	DEBIT	CREDIT
x-xx-xx	Temporary Loan between funds	35-9723-0-0000-0000-9648		3,000,000
	Temporary Loan between funds	01-0000-0-0000-0000-9648	3,000,000	

Example 2: Assume the district borrows $3,000,000 from fund 35 within the last 120 days of the fiscal year. The district has the option to repay the loan within the same fiscal year or the following fiscal year. If the district chooses the latter, they will have to set up accruals to reflect the liability in fund 01 and the receivable in fund 35. The district can do this through the accruals set up process.

1. Set up an Estimated Receivable in Fund 35 for $3,000,000 (obj 9648)
2. Set up Estimated Payable in Fund 01 for $3,000,000 (obj 9648)
3. After the Estimated Payable (EP) and Estimated Receivable (ER) have been set up, the district will need to reclassify the entries by preparing a journal entry as follows:

DATE	OBJECT TITLE	SACS ACCOUNTING STRING	DEBIT	CREDIT
6-30-xx	Accounts Receivable	35-9723-0-0000-0000-9229		3,000,000
	Due From Other Funds	35-9723-0-0000-0000-9319	3,000,000	
	Accounts Payable	01-0000-0-0000-0000-9529	3,000,000	
	Due To Other Fund	01-0000-0-0000-0000-9619		3,000,000

After the transactions above have been posted, the financial system will reflect the following:

DATE	OBJECT TITLE	SACS ACCOUNTING STRING	DEBIT	CREDIT
6-30-xx	Receivable in Fund 35	35-9723-0-0000-0000-9648		3,000,000
		35-9723-0-0000-0000-9310	3,000,000	
	Payable in Fund 01	01-0000-0-0000-0000-9648	3,000,000	
		01-0000-0-0000-0000-9610		3,000,000

4. In the new fiscal year, the district will need to do the following entries:

   a) "Z" the ER and EP, eliminating the receivable & payable in each fund and allowing it to be reflected in the correct object code (object 9648) in the new fiscal year.

   b) Process a journal entry to reverse the reclassification done in step 3 as illustrated below:

DATE	OBJECT TITLE	SACS ACCOUNTING STRING	DEBIT	CREDIT
7-1-xx	Accounts Receivable	35-9723-0-0000-0000-9210	3,000,000	
	Due From Other Funds	35-9723-0-0000-0000-9310		3,000,000
	Accounts Payable	01-0000-0-0000-0000-9510		3,000,000
	Due To Other Fund	01-0000-0-0000-0000-9610	3,000,000	

5. The district must then process an interfund transfer to repay the loan, using the same account coding as in Example #1:

DATE	OBJECT TITLE	SACS ACCOUNTING STRING	DEBIT	CREDIT
x-xx-xx	Temporary Loan between funds	35-9723-0-0000-0000-9648		3,000,000
	Temporary Loan between funds	01-0000-0-0000-0000-9648	3,000,000	

Please note: Community Colleges use object 9530 for Temporary Loans.

_____ SCHOOL DISTRICT

RESOLUTION NO. _____

RESOLUTION TO AUTHORIZE TEMPORARY BORROWING BETWEEN FUNDS OF THE SCHOOL DISTRICT

ON MOTION of Member _____, seconded by Member _____, the following resolution is hereby adopted:

WHEREAS, the San Bernardino County Treasurer does not have authority to honor warrants drawn on school district funds with insufficient cash balances in the absence of an approved borrowing arrangement with the district; and

WHEREAS, the governing board of any school district may direct that moneys held in any fund or account may be temporarily transferred to another fund or account of the district for payment of obligations as authorized by Education Code Section 42603; and

WHEREAS, actual interfund transfers shall be accounted for as temporary loans between funds and shall not be available for appropriation or be considered income to the borrowing fund or account; and

WHEREAS, amounts transferred shall be repaid either in the same fiscal year, or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year;

NOW THEREFORE, BE IT RESOLVED that:

1. *The Governing Board of the _____ School District hereby authorizes, for fiscal year 20 -20 , temporary transfers between the following funds and authorizes the San Bernardino County Treasurer to honor warrants drawn on those funds, regardless of their cash balances, provided the aggregate cash balance of all those funds is positive:*

   (LIST APPLICABLE FUNDS)

2. *The Governing Board of the _____ School District hereby authorizes the Superintendent or his designee to approve any actual interfund transfers processed between the above-mentioned funds and requires that any actual transfer of funds pursuant to this resolution be ratified by the Board as soon as practicable.*

PASSED AND ADOPTED by the Governing Board on 20 , by the following vote:

AYES:

NOES:

ABSENT:

STATE OF CALIFORNIA)

) ss

COUNTY OF _____)

I, _____, Clerk/Secretary of the Governing Board, do hereby certify that the foregoing is a full, true, and correct copy of a resolution passed and adopted by the Board at a regularly called and conducted meeting held on said date.

WITNESSED my hand this day of ,
20_____.

Clerk/Secretary of the Governing Board