June 10, 2020

To: Nancy Magee, County Superintendent of Schools
From: Denise Porterfield, Deputy Superintendent
Business Services Division

Subject: Authorizing a Dry Period Financing Loan for San Mateo County School Districts

About a year and a half ago, the calculation for Educational Revenue Augmentation Funding (ERAF), in support of Local Control Funding Formula (LCFF) districts came into question. The question is whether charter schools are eligible for ERAF funding. It became evident that not all counties calculated the eligibility the same way.

All districts are primarily funded with property taxes. If there are not enough property taxes to fully fund or overfund a district’s LCFF, ERAF funds are used to fund the district up to $1 short of the LCFF. ERAF funding cannot push a district into Basic Aid status.

Historically, this calculation was based on charter schools being fully eligible for ERAF funding. Under the Revenue Limit funding calculation, charter schools were eligible for ERAF.

Revenue & Taxation Code section 95 defines school entities as school districts, community college districts, the Educational Revenue Augmentation Fund, and county superintendents of schools. This was the basis for the original interpretation that charter schools were not eligible for ERAF. Because charter schools were not explicitly named, it was originally interpreted that charter schools were not eligible.

After a series of meetings, the California Department of Finance presented Education Code they believed supported the position to fully include charter schools. However, the San Mateo County Controller’s office interprets the Revenue & Taxation Code to only include charter schools up to their taxes-in-lieu amount. This amount is less than a charter school’s full apportionment.

The Department of Finance further directed the counties not to recalculate the two prior years, but to keep to their current method until the issue was resolved.
The Controller’s Office determined following this directive would constitute an unauthorized loan to our districts since excess ERAF is returned to the other taxing agencies, recalculated, and submitted as new reports for 2017-2018 and 2018-2019. As a result, the San Mateo County ERAF eligibility was recalculated, and as a result all district amounts were impacted whether or not they had a charter school.

The current outcome is the County Controller has taken the ERAF dollars back, and the California Department of Education has not reviewed or certified the re-submitted reports to authorize the back fill. This has left a number of our districts waiting on prior year funding and creating a cash flow problem and even a potential cash insolvent issue at June 30, 2020. The Department of Finance has included language in the 2020/21 trailer bill that will fine a county that fails to allocate ERAF revenue in accordance with the guidance provided by the Department of Finance.

Because of the funding shortfall this creates, it is respectfully requested the San Mateo County Board of Education approve a short term loan, from on or before June 30, 2020 not to exceed $28,131,578.00 to the following districts:

- Belmont-Redwood Shores School District $ 5,131,578.00
- Cabrillo Unified School District $14,000,000.00
- Millbrae Elementary School District $ 7,000,000.00
- Pacifica School District $ 2,000,000.00

The same sum, plus negative interest, the interest SMCOE would have earned, will be transferred back to SMCOE on or before July 31, 2020. The funds to be used are in SMCOE funds, such as Fund 20 and 40. This will not have an impact on our ending fund balance, only our cash balance for one month.

I will be present at the Board meeting on June 17, 2020, to respond to any questions the Board may have.

Attachment

Approved and Recommended to the Board:

Nancy Magee, County Superintendent of Schools
Resolution No. 20-38
San Mateo County Board of Education
State of California

Authorizing a Dry Period Financing Loan for San Mateo County School Districts

Whereas, the Belmont-Redwood Shores School District, the Cabrillo Unified School District, the Millbrae Elementary School District, and the Pacifica School District are within San Mateo County; and

Whereas, a school district’s funding is based on the Local Control Funding Formula (LCFF); and

Whereas, property taxes collected on behalf of a school district is its first funding source; and

Whereas, if the property taxes exceed a district’s LCFF, the district is considered Basic Aid; and

Whereas, if the property taxes are insufficient to fully fund a school district, Educational Revenue Augmentation Funding (ERAF) is the second funding source; and

Whereas, historically the San Mateo County Controller’s calculation of ERAF entitlement has included charter schools as eligible for ERAF, including the 2017-2018 and 2018-2019 original submission for apportionment certification; and

Whereas, the San Mateo County Controller originally reinterpreted Revenue and Taxation Code section 95 to exclude charter schools, as defined as school entity, as not eligible for ERAF; and

Whereas, the San Mateo County Controller now includes charter schools, but only to their entitled Taxes-In-Lieu amounts from their authorizing districts; and

Whereas the San Mateo County Controller has re-filed the 2017-2018 and 2018-2019 tax reports; and

Whereas, the San Mateo County Controller has taken back ERAF funds from the districts it now believes they were ineligible for; and

Whereas, the Department of Finance (DOF) and the California Department of Education (CDE) interpret the relevant Code sections to include charter schools and have instructed all counties not to resubmit the tax reports but to calculate 2019-2020 with the historical method used within the county; and

Whereas, the DOF and CDE have stated they would not accept resubmission of the tax reports; and

Whereas, CDE will not re-certify the greater state apportionment; and

Whereas, this leaves a funding gap for our school districts until the two agencies resolve the calculation; and

Whereas, this funding gap puts these districts at risk of being cash insolvent on June 30, 2020;

Now, Therefore, Be It Resolved the San Mateo County Board of Education authorizes the San Mateo County Office of Education to transfer the sum of $28,131,578 to the following School Districts from its reserves on or before June 30, 2020, as a Dry Period Financing Loan to ensure the District is cash solvent on June 30, 2020.

- Belmont-Redwood Shores School District $ 5,131,578.00
- Cabrillo Unified School District $14,000,000.00
- Millbrae Elementary School District $ 7,000,000.00
- Pacifica School District $ 2,000,000.00
Be It Further Resolved the School Districts will transfer the same sum plus any negative interest, interest SMCOE would have earned if the funds remained in SMCOE accounts, back to the San Mateo County Office of Education on or before July 31, 2020.

SAN MATEO COUNTY BOARD OF EDUCATION

President