

**COUNTYWIDE CHIEF BUSINESS OFFICERS MEETING**

**NOVEMBER 30, 2017**

**9:30 a.m. to 12:00 p.m.**

**SAN JOSE ROOM**

**AGENDA**

|               |  |   |
|---------------|--|---|
| 9:30 - 9:35   | Welcome  | Megan K. Reilly<br>Santa Clara COE            |
| 9:35 - 10:00  | Alternative Education Program Update           | Steve Olmos / David Putney<br>Santa Clara COE |
| 10:00 - 10:15 | Technology Services Update                     | Cindy Patterson<br>Santa Clara COE            |
| 10:15 - 10:30 | District Business and Advisory Services Update | Judy Kershaw<br>Santa Clara COE               |
| 10:30 - 10:45 | AB 670 Playground Employees                    | Philip J. Gordillo<br>Santa Clara COE         |
| 10:45 - 11:55 | Disclosure History/Training                    | Dan Deaton / Graham Beck<br>Nixon Peabody LLP |
| 11:55 - 12:00 | Closing  | Megan K. Reilly<br>Santa Clara COE            |

**FUTURE MEETINGS**

| DATE              | TIME                   | ROOM             |
|-------------------|------------------------|------------------|
| January 18, 2018  | 9:30 a.m. - 12:00 p.m. | Morgan Hill Room |
| February 15, 2018 | 9:30 a.m. - 12:00 p.m. | Oak Grove Room   |
| March 22, 2018    | 9:30 a.m. - 12:00 p.m. | Milpitas Room    |
| May 17, 2018      | 9:30 a.m. - 12:00 p.m. | Oak Grove Room   |

Santa Clara County  Office of Education

# Alternative Education Program

Chief Business Officers

November 30, 2017

# Purpose of Alt Education

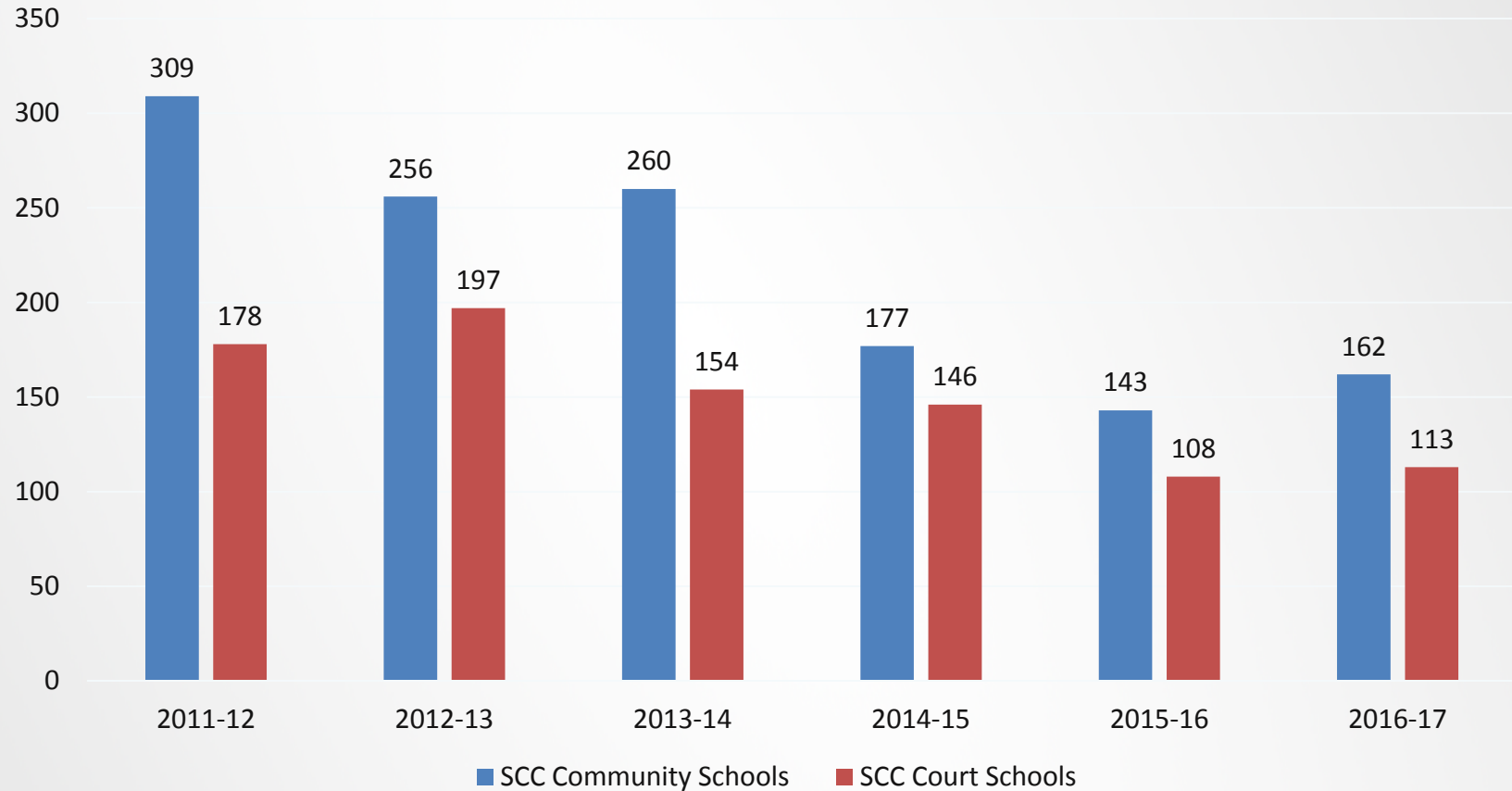
- The Alternative Education Department (AED) provides educational programs for students under court supervision, and who are expelled or who are deficient in credits and have experienced challenges in matriculation in the traditional school settings.



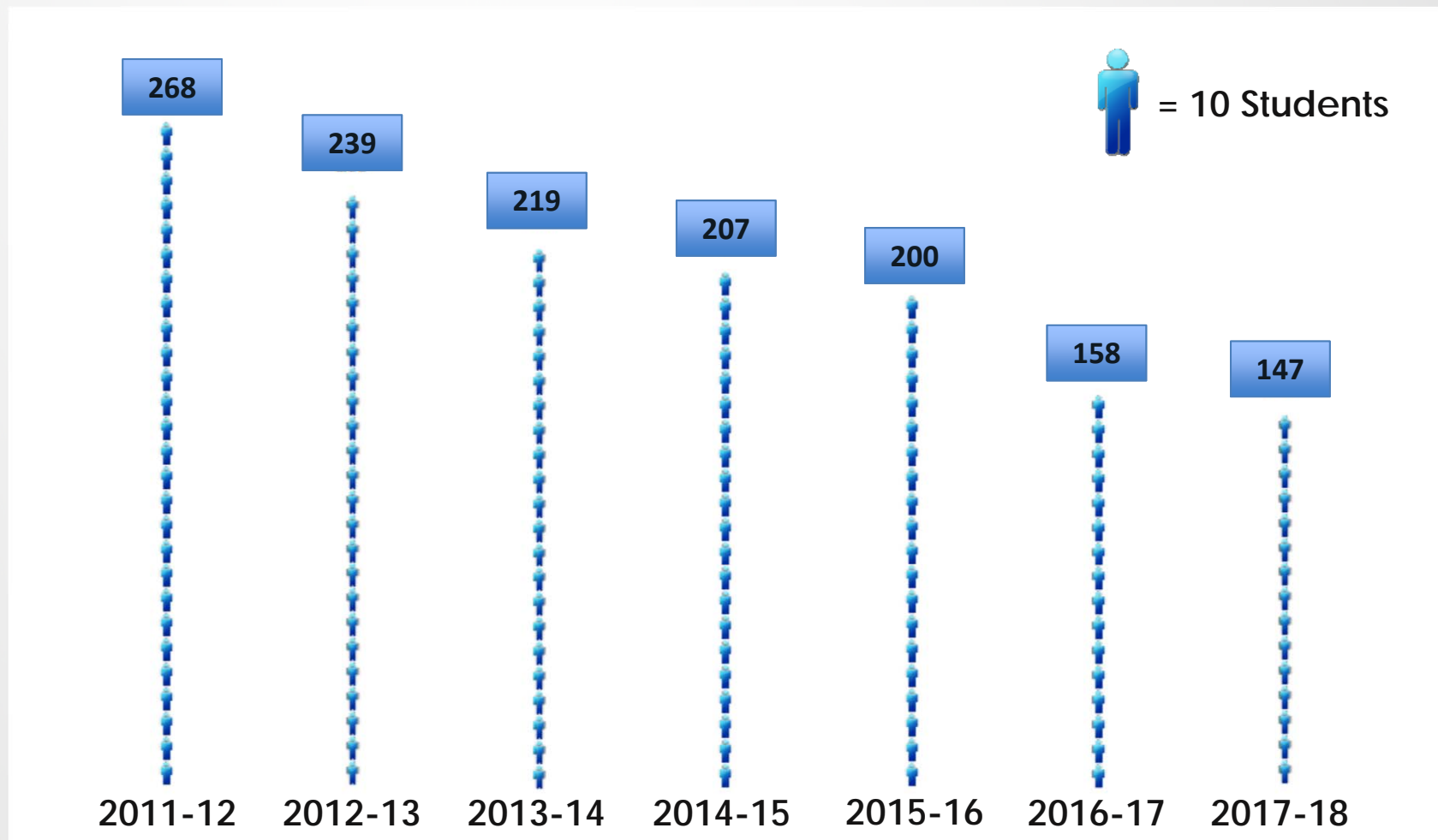
# Alternative Education (AED) Revenue Sources

- Community Schools
- Non-Juvenile Court Schools (NJCS)
  - Local Control Funding Formula (LCFF)
    - Base, Supplemental and Concentration
  - State Lottery
  - Tuition/Allotments
  - General Fund Contribution
- Institutions
- Juvenile Court Schools (JCS)
  - LCFF
    - Base, Supplemental and Concentration
  - State Lottery
  - Contribution from General Fund

# Santa Clara County Alternative Education Total Enrollment 2011-2017



## TOTAL NUMBER OF ALTERNATIVE EDUCATION ALLOTMENTS PER MOU 2011-2018



# Alternative Education Historical ADA

|                              | 2011-12<br>P-Annual | 2012-13<br>P-Annual | 2013-14<br>P-Annual | 2014-15<br>P-Annual | 2015-16<br>P-Annual | 2016-17<br>P-Annual |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Community Schools</b>     | 294.22              | 237.74              | 238.91              | 157.30              | 123.27              | 83.10               |
| <b>Court Schools</b>         | 247.93              | 231.12              | 238.76              | 188.29              | 158.54              | 115.21              |
| <b>Community Day Schools</b> | 19.86               | 32.74               | 0.00                | 0.00                | 0.00                | 0.00                |
| <b>Total AED ADA</b>         | <b>562.01</b>       | <b>501.60</b>       | <b>477.67</b>       | <b>345.59</b>       | <b>281.81</b>       | <b>198.31</b>       |

# General Fund Contributions

| Program           | 2017-18 Proposed Budget | 2018-19 Projected Budget | 2019-20 Projected Budget |
|-------------------|-------------------------|--------------------------|--------------------------|
| Community Schools | \$1,900,302             | \$1,974,757              | \$2,000,840              |
| Court Schools     | \$1,248,225             | \$1,218,440              | \$1,230,690              |
| Total             | \$3,048,527             | \$3,193,197              | \$3,231,530              |

|  |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| <b>Opportunity Youth Academy (OYA)</b> | <b>\$1,296,107</b> | <b>\$1,376,173</b> | <b>\$1,392,554</b> |
|--|--------------------|--------------------|--------------------|



# Alternative Choices

- Court Schools are mandated
- Community Schools are options...



# Process Update

## Current Status

- June 2018 Odyssey Closes
  - due to excessive cost (\$700,000 GF contribution)
  - Low enrollment
- Collaborating with Districts and Partners to develop a plan for 2018-19
  - *Probation, Juvenile Judges, Department of Family and Children's Services, District Attorneys Office, Public Defenders Office, Alternative Defenders Office, Juvenile Justice Commission Officers, and other related partners (September – October)*
  - *Morgan Hill Unified (9/25/17)*
  - *Gilroy Unified (9/25/17)*
  - *East Side Union High (10/11/17)*
  - *Campbell Union High School District (11/27/17)*
  - *Santa Clara Unified School District (10/18/17)*
  - *Milpitas Unified School District (11/5/17)*
  - *San Jose Unified (11/7/17)*
  - *Restructure Summit (11/14/17)*
  - *Community School Summits 11/14/17 & 12/12/17*
  - *Countywide Chief Business Officers monthly county meeting Oct, Nov, Dec, Jan, Feb*
  - *Letters out to all county Superintendents inviting their involvement in the next Summit 12/12/17*



# AED Reorganization

- Allotments
  - Increase Allotments to reflect cost of program
    - Current cost is \$3,600 per seat
    - Three year phase in options 50%, 75%, 100%
    - Handout
  - New MOU
    - Requesting districts to return financial commitment by 1/31/18
    - The current year cost (either 50%, 75%, 100%)
    - Allotments/Seat purchased after 1/31/18 will be a different cost T.B.D.
  - Exploring Levels of services & differential cost (SPED model)
    - High level of services 4-6 hours a day w/social emotional support
    - Mild level of services 4 hours a day w/ work experience
    - Low level of services T.B.D.
    - Possible change from Allotments to referrals/placements



# Next Steps

- New MOU to be sent out December 2017
- Superintendents & Community Partners invited to Community School Summit 12/12/17 (10am-12pm)
- Request all District partners to return commitment letters by **1/31/2018**
- Review districts responses
- Staff accordingly
- Update Countywide Expulsion Plan



Santa Clara County  Office of Education

Technology Services Branch

Technology Resources Advisors (TRA)

**Brenda Harris**  
**Retiring**

**Delma Davis**  
**Retiring**

**Rhonda Ramirez**  
Payroll –  
District/Syst  
em

**Marie Sequeira**  
Payroll –  
District  
Focus

**Richard Aldover**  
Finance and  
Budget

**Lydia Cabrera**  
Systems and  
Security - LF

**Allen Tang**  
HR ++

**Govind Walia**  
Purchasing

**Chris Dea**  
Systems and  
Security





**TSB Technology Resource Advisors District Report for Fiscal Year 2017**

**Oak Grove**

The purpose of this report is to communicate system utilization and support statistics to district leadership.

**Current District Authorized Signers**

Ruth Martin      Melina Nguyen  
 Laura Phan

**Fiscal Year Totals**

**Direct Deposits Processed: 12,253**  
**Payroll Warrants Processed: 3,477**  
**AP Warrants Processed: 4,338**  
**W2 forms Processed: 1,683**  
**1099 forms Processed: 73**

**Current Number of Business System Users: 124**

**Current Number of ESS Users: 282**

**Business Systems and Services**

**Personnel**

- Human Resources
- Absence Tracking
- Benefits Management
- Payroll
- Position Control
- Employee Self Service
- ESS – Absence Request

**Finance**

- General Ledger
- Accounts Payable
- Accounts Receivable
- Budget Development
- Budget Control

**Purchasing**

- Site based/Remote
- Req. Routing/Rule Based
- Fixed Assets
- Warehouse (Stores Inventory)

**Document Management**

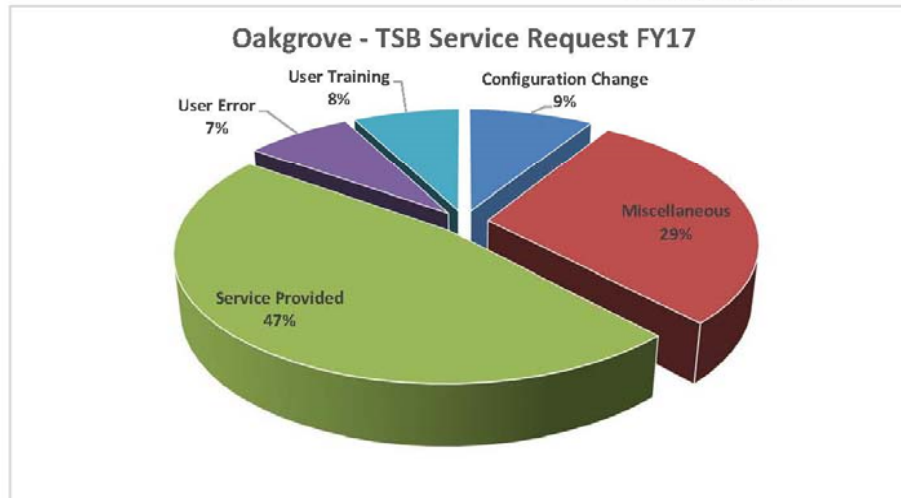
- Archiving (Laserfiche)
- Vault
- Payroll Report Distribution

**Desktop Alternatives**

- Executive Desktop – remote access
- District Remote Desktop

**Data Services**

- HR Core Data
- AFComply integration
- Evaluat'd integration
- Vitality Integration



# ERP Usage – Santa Clara

## Personnel

100% Human Res.  
 59% Absence Tr.  
 100% Payroll  
 28% Position Cont.

## Finance

100% General Ledger  
 100% Accounts Payable  
 25% Accounts Rec.  
 84% Budget Dev.  
 88% Budget Control

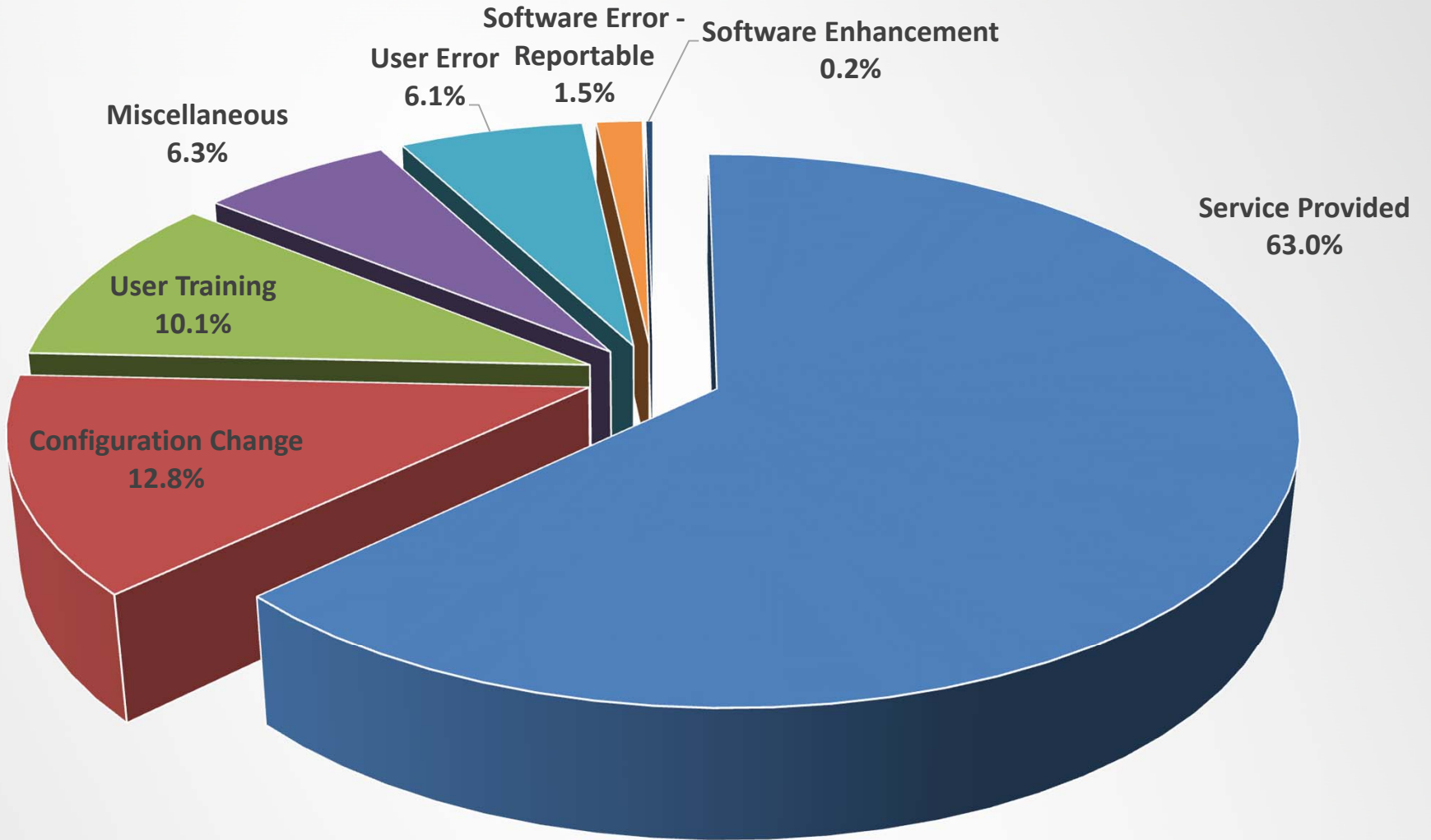
## Purchasing

41% Site based/Remote  
 47% Req. Routing/Rule Based  
 31% Fixed Assets  
 28% Warehouse (Stores Inv)

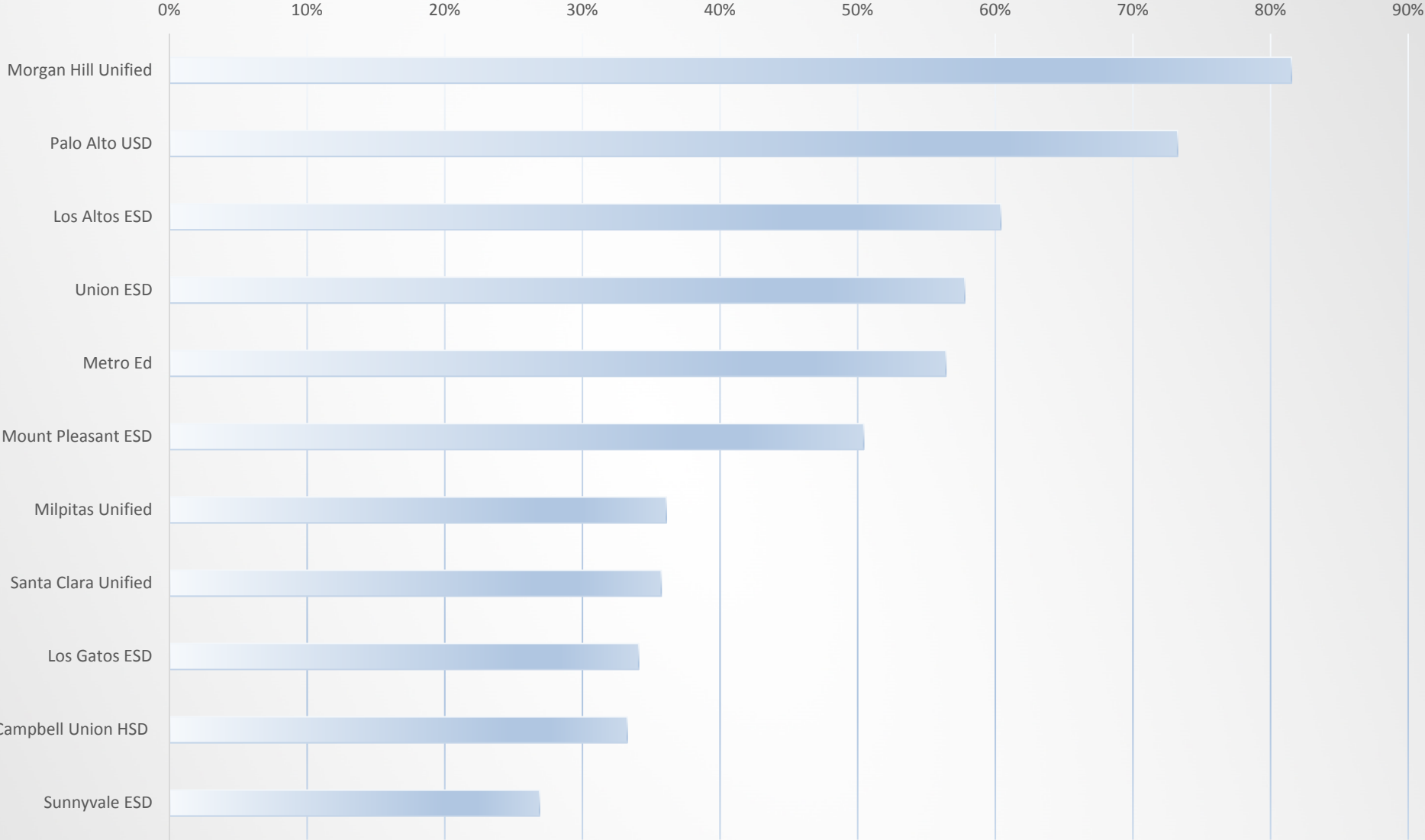




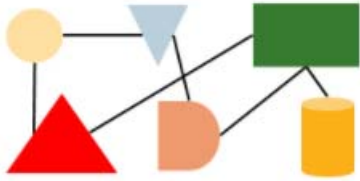


SCCOE – TRA - Service Requests FY2017



# ESS Usage Comparison W2/ESS Users

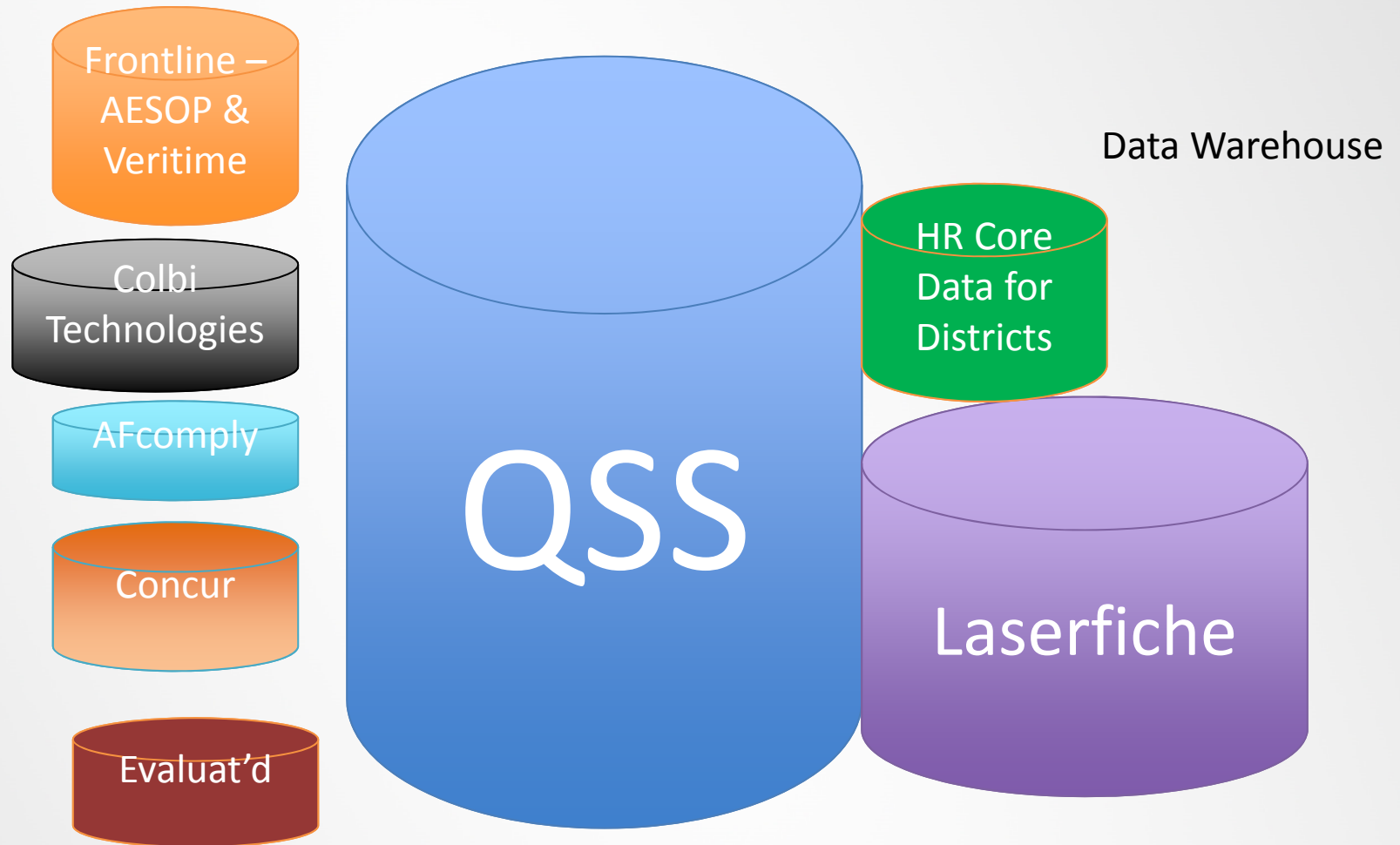


# Post Modern ERP

|                     | Best of Breed <1997   | Modern ERP 1998 - 2014   | Postmodern ERP 2015>  |
|---------------------|---|--|---|
|                     |  |  |  |
| <b>Strategy</b>     | Tactical purchasing of "best" solutions by function                               | Strategy = Vendor<br>ERP = Suite of suites   | Business-driven and owned: Core ERP and specialized add-on solutions                |
| <b>Architecture</b> | Fragmented  | Monolithic   | Holistic and integrated   |
| <b>Plans</b>        | Slow to respond   | Silo-based   | Life cycle based on business capabilities   |
| <b>Integration</b>  | Complex, point-to-point   | Tight, but within the ERP solution   | Federated, loosely coupled and "differentiated" connecting technology               |
| <b>Orientation</b>  | Function  | Data   | End-to-end value chains   |
| <b>Governance</b>   | Fragmented  | Controlling — single speed   | Balanced: Tailored to pace of business change                                       |

Source: Gartner (June 2016)

# Post Modern ERP



# Dialogue

- Districts Rolling Paylines
- Training



# Enterprise Resource Planning - ERP

## Payroll

- Import/Export
- Integration with Veritime
- Benefits Management
  - History
  - Integration with Accounts Receivable
  - Integration with American Fidelity.... And more

## Human Resources

- Employee Self Service Core
  - Everyone has access
  - Forgot UserID Function
- ESS –Absence Request
  - Workflow (need volunteers)

# ERP – What's New

## General Ledger/Budget

- Accounts Receivable
- Accounts Payable
  - AP copies in LF
  - Integration with Colbi Technologies
  - ACH for AP
  - Bulk imports
  - PV imports
- Budget Actions

## Purchasing

- Attachments
- Migrating to Requisition Routing
- Work Flow comes to POCO
- Fixed Assets
  - Import, more reports
- Stores/Warehouse



## Also new...

- Business System Onboarding
  - Guide
  - Enrollment in class
  - Beginning QSS class available every month





# Access to Data

- Adhoc/Client
- Payroll Production Queue
- The Vault (now AP and Payroll)
- HR Core Data for Districts

# HR Core Data for Districts



**Current Organic Growth**

- Core Data is extracted from QSS and placed on a sFTP server each night
- District can choose to use this data for district level automation or other district functions
- Of course there is paperwork and red tape



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Administrators](#)[Public Schools Directory](#)[Job Opportunities](#)[Credentialing Programs](#)[SCCOE Intranet](#)[Contact Us](#)

## Core Data Access

Core Data access is a service providing districts with data from the Personnel/Payroll table in the QCC database. This service includes a daily snapshot of a district's data entered into QCC. The data can be downloaded via secure FTP. The information below includes an overview, security form and data dictionary. Please contact the TSB Help Desk for more information.

### HR Core Data Guidelines

#### Overview

HR Core Data for Districts provides sensitive HR data to districts to use to update other systems within their districts which require Human Resource demographic data. This allows the district to use QSS as the system of record and avoid dual data entry. Examples of systems that might be updated with this information include substitute management systems, time and attendance systems, and student information systems. This data is used at the Districts discretion.

#### Process

Data is provided nightly in a batch process. District data remains separate at all times. TSB provides a secure FTP server for each district as the delivery point. Data is extracted from QSS during the nightly maintenance cycle into a semicolon delimited file unique to each district. These files are moved to the separate sFTP servers for each district, ready for district use.

Two files will be uploaded to the sFTP server: perpay and perpay.txt. These files are

#### HR LINKS

[Register for classes on  
AccessPoint](#)[Position Control FYE](#)[QSS ABT - Loading  
absences hands on lab](#)

#### TRA SERVICES LINKS

[Core Data Access](#)[Desktop Productivity  
Applications](#)[Document Management  
Systems](#)[Finance and Budget  
Systems](#)



## CORE DATA ACCESS ENROLLMENT FORM - 2017

**DISTRICT IT STAFF, READ FIRST:** Before you complete this form, please take careful consideration into deciding the district staff who will have access to your district's Core Data. This form designates which district staff will be provided access to the district's Core Data and associated files via FTP server.

- This form must be **typewritten** and **signed by a District Authorized Signer** in order for TSB to process.

### REASON FOR ENROLLMENT FORM SUBMISSION:

- NEW                       UPDATE (Any changes to "Who I want to give access to district Core Data to:")

I, \_\_\_\_\_ (Authorized Signer Name), authorize enrollment of my district in the Core Data program from TSB. I request and authorize access to the Core Data, associated data files, and FTP account information for \_\_\_\_\_ (District Name) be provided to the following individual(s) specified in "**Who I want to give access to district Core Data to:**" section below.

### Who I want to give access to district Core Data to:

Name: \_\_\_\_\_ Employee Number: \_\_\_\_\_

E-mail: \_\_\_\_\_ Phone: \_\_\_\_\_ Position: \_\_\_\_\_

Name: \_\_\_\_\_ Employee Number: \_\_\_\_\_

E-mail: \_\_\_\_\_ Phone: \_\_\_\_\_ Position: \_\_\_\_\_

Name: \_\_\_\_\_ Employee Number: \_\_\_\_\_

E-mail: \_\_\_\_\_ Phone: \_\_\_\_\_ Position: \_\_\_\_\_

By signing this form, District Authorized Signer understands:



# W2 Ideas

- Have the SCCOE print shop mail them for you (contact Lee Blevins 408-453-6988)
- Electronic Delivery consent
  - <https://www.irs.gov/pub/irs-pdf/p1141.pdf>
  - Page 16

**Yes – we print your 1095Cs!**

*Please let us know via service request  
if you will utilize this service*



Thank you!



Santa Clara County  
Office of Education



**To:** QSS Business System Customers  
**From:** Cindy Patterson, Technology Resource Advisors  
**Date:** December 1st, 2017  
**Subject:** Fiscal Year End System Activities

Technology Services performs several automated tasks to assist districts in preparing the business system for the new fiscal year. Attached is a summary of activities. Individual memos will be sent with more detail.

These tasks are scheduled to be completed for all districts at the same time to maintain economies of scale. Addressing these tasks individually for each district would require significant more resources and time. Districts who are unable to meet these deadlines will receive assistance from TSB as time and resources are available without disadvantaging those districts that were able to meet deadlines for group processing. If you foresee any obstacles to meeting these deadlines please contact me as soon as possible so we can work together to mitigate the issues. Our goal is a smooth transition for everyone to the new fiscal year.

DRAFT





# **Preparing the Business System for Fiscal Year Transition**

**2017-2018 Ending**

**2018-2019 Beginning**

DRAFT

# Key Decisions

|                         | Decision   | Action  | Who                        | Start | Deadline   |
|-------------------------|--|---|----------------------------|-------|--|
| <b>Position Control</b> | Districts determine use of position control odometers.   | District authorized signer enters service request via AccessPoint   | District authorized signer | open  | open   |
|                         | <p><b>Copy of Accounts may only be done once</b></p> <p>Districts using position control for budgeting determine a strategy for copying account strings to the new year. See more detail in GL/Budget section below. There are three options:</p> <p><b>1) Early Option</b> – Accounts available February 3rd - Copy account strings to new year – district maintains 2 years concurrently.</p> <p><b>2) Standard Option</b> - Copy account strings March 30th.</p> <p><b>3) District Controlled Option</b> - Manual copy of account strings into new year by district personnel</p> | District authorized signer enters service request via AccessPoint   | District authorized signer | open  | <p>Early Option Deadline: January 26th</p> <p>Standard Option Deadline: March 23rd</p> <p>District Controlled Option: Must inform TSB by March 23<sup>rd</sup></p> |
| <b>GL/Budget</b>        | <p>Districts are responsible for mass changes to status (open/close) and rollover flags.</p> <p>Districts determine accounting strategy for new year.</p> <p>There are two options:<br/>1) TSB copies prior year account codes according to status and rollover flags - accounts available March 30th</p>  | <p>Early Option for Position Control – see above</p> <p>Option 1: District authorized signer must submit form via AccessPoint requesting TSB to copy accounts</p> <p>Option 2: District authorized signer submits form via AccessPoint confirming</p> | District authorized signer | open  | March 23rd   |

# Key Decisions

|                   |  |  |                            |  |            |
|-------------------|--|--|----------------------------|--|------------|
|                   | 2) Districts manually copy account codes into new fiscal year using Excel and the QCC Import Accounts  | that district will be importing accounts   |                            |  |            |
| <i>Purchasing</i> | Purchase Order Odometers<br>District must determine if they wish to use purchase order odometers. If purchase order odometer to be used districts must determine schema for numbering.   | District authorized signer must submit odometer specification form via AccessPoint requesting numbering. <b>Must submit if district uses purchasing</b>                        | District authorized signer | open   | March 23rd |
| <i>Security</i>   | Districts must determine their security strategy for access to multiple years. Various departments will need access to both prior year and future year during transition. Example: staff often needs access to new year prior to July 1st to enter requisitions. | District authorized signer completes matrix via AccessPoint. Information sent to authorized signer from TSB.   | District authorized signer | March 13 <sup>th</sup> – web form becomes available on AccessPoint | April 3rd  |
| <i>Payroll</i>    | Districts may pay those employees who normally receive pay on the 10th of the month (timesheets) on June 30th to facilitate closing the year   | District authorized signer submits a request via AccessPoint   | District authorized signer | open   | June 9th   |
|                   | District determines if it will copy/roll paylines to the new year or wait for TSB schedule.  | District authorized signer submits service request via AccessPoint requesting TSB roll paylines, specifying if standard preset order or specific pay type only should be used. | District authorized signer | open   | June 30th  |

# Task Detail

## Multi Year Access to Financials - Security

Authorized signer indicates who, which accounts, should access to New Year or both years

When: Begins March 13<sup>th</sup>, **must be completed by April 3**

Where: Authorized signer updates record on AccessPoint

## Absence Tracking

District performs balance forward, balance reset and accruals

When: Usually after July 10<sup>th</sup> payroll but before July EOM payroll

Where: Hands on lab provided by TSB.

## Accounts in General Ledger available in New Year (2018)

District eliminates rolling of unnecessary FY17 accounts into FY18 by unchecking the “rollover flag” on the account maintenance screen in FY17.

Upon request by the district authorized signer, TSB will train district personnel how to make mass changes the rollover flags. Changes must be received by TSB by March 30 in order to be completed before the FY18 account roll

When: Accounts available in GL April 10<sup>th</sup>, 2018

Who: TSB rolls accounts to New Year unless district chooses to roll their own

Note: until accounts are available in New Year many activities are not available

## Accounts Receivable

When: All **FY17 IBM (Invoice and Billing Management) receipts** must be entered by noon on Friday, June 22, 2018.

QCC Invoice and Billing Management FY18 will be unavailable until July 10<sup>th</sup>, 2018

What: Submit request via AccessPoint

Who: Authorized signer

## Budget

FY18 Adopted budgets are not submitted to TSB. All adopted budgets for dependent districts and the subsequent roll of adopted budgets into FY18 is done by the District Business Advisory (DBAS) staff. Independent districts roll their own adopted budgets.

## Fixed Assets

There is an optional process done by the district to adjust Fixed Assets values for the new fiscal year. This is done by the district at their discretion.

## Payroll

### Master files

When: Beginning January 15<sup>st</sup>

Who: TSB copies to the New Year on behalf of Districts who request for early access via a service request in AccessPoint

### Paylines

Districts may roll their pay lines to New Year at any time based on district business practices.

\*\*Paylines may only be rolled once – system constraint.

### Payroll optional early processing (optional)

Some districts process their pay that would usually process on July 10<sup>th</sup> at June EOM

# Task Detail

When: Submit service request by June 9th.

## Position Control

Districts roll data and update in New Year to create projections for budget.

When: Districts control timing of activities however master files must be rolled by TSB and Accounts must be available in the General Ledger. Please enter a service request for TSB to roll your position control master files and make accounts available earlier for budget development. Work calendars must be created for the New Year while salary schedules, positions and assignments can be rolled (copied) forward. Once districts roll positions and assignments to the New Year they are faced with maintaining 2 datasets therefore many choose to wait until year end. Budget projections can be made for the New Year using current year data.

## Purchasing

Purchase orders may be entered into the New Year (2018) on April 9<sup>th</sup>.

Note for Budget Blocking: Authorized signers for districts who use "hard" Budget Blocking for requisitions or "hard" Account Summarization budget blocking should enter a service request for the budget blocking for requisitions be temporarily set to "soft" block until their FY18 adopted budget is rolled into the General Ledger by DBAS or else no requisitions will be able to be entered. After the district adopted budget is rolled in by DBAS, the authorized signer should enter a new service request to change the budget blocking settings back to "hard" blocking.

Purchase Odometers – all districts using purchasing must submit form

When: Form must be returned to TSB by March 23<sup>th</sup>

Who: Authorized signer

Mass close of purchase orders in old year - (optional)

When: Form must be returned to TSB by July 15<sup>rd</sup>

Who: Districts must perform 'clean-up' between now and July 2<sup>nd</sup>. TSB performs mass close. If district chooses to close purchase orders individually this is not required.

## Stores

Performed by districts:

Warehouses closed by the districts for new orders/issues near the end of June.

Outstanding orders, issues, back issues and physical inventory of stock items and adjustment counts performed by districts.

Performed by TSB:

Define warehouse for new fiscal year

Roll Master File records to new fiscal year

Carry forward stock balances

Resynchronize and repost stores counters

Notify districts process completion and Stores warehouses are open

When: Form and last page of Stock Status Report must be returned to TSB by July 15<sup>st</sup>

When: Fiscal Year 17 is not available until district is notified the process is complete by TSB.

Who: Authorized signer

| Deadline   | Area  | Action  | Responsible Party |
|------------|-------|---|-------------------|
| Open       | PC    | Districts begin creating projections for new year using current year data and budget area   | Districts         |
| Open       | PC    | Districts using position control must enter the benefit projection rates for the new year before creating projections   | Districts         |
| Open       | PC/PY | Districts enter Work Calendars and copy salary schedules to new year.   | Districts         |
| Open       | PC    | Districts enter service request via AccessPoint to request PB Bonus code master file copied to new year   | Districts         |
| March 1st  | AC    | Districts continue clean-up of account strings  | Districts         |
|            | ST    | Districts continue reconciling of stores  | Districts         |
| March 23rd | SS    | Districts may begin submitting Multi Year Access Security requests online   | Districts         |
| March 23rd | AC    | Deadline for <u>requesting account close/rollover</u> mass changes to TSB   | Districts         |
|            | PO    | Deadline for <u>submitting form</u> to TSB for custom purchasing odometers  | Districts         |
| April 2nd  | SS    | Deadline to complete multi-year security process online   | Districts         |
| April 6th  | AC    | Accounts available in general ledger for new fiscal year  | TSB               |
| April 9th  | PO    | Purchase orders may be entered into new year.   | Districts         |
| April 9th  | PY    | Payroll bonus codes, position control bonus codes and deduction schedule files are created in new year  | TSB               |
| June 6th   | BU    | Entering Approved Budgets & Beginning Balances  | Districts         |
| June 9th   | PY    | Deadline for districts to <u>submit service request</u> for early payroll processing for the July 10th payroll.   | Districts         |
| June 22nd  | AR    | IBM receipts and invoices must be entered by <u>noon</u>  | Districts         |
| July 10th  | AR    | QCC Invoice and Billing Management FY17 available   | TSB               |
|            | PY    | TSB rolls paylines for those districts requesting service. July 1st is deadline to request TSB to roll paylines   | TSB               |
| July 11th  | AT    | Districts usually complete Absence Tracking accruals after this date and before July 31 <sup>st</sup>   | Districts         |
| July 15th  | PO    | Deadline for <u>submitting form</u> to TSB for mass close of purchase orders. Please note that this is a hard deadline. After this date districts will be responsible for closing purchase orders without TSB assistance. | Districts         |
|            | ST    | Deadline for <u>submitting form</u> to TSB for Stores FYE processing  | Districts         |
|            | PY    | Deadline for <u>submitting service request</u> to TSB to roll pay lines   | Districts         |

**Highlighted items in this memo apply to all districts using QCC**

**WHY DOES THE SEC CARE SO  
MUCH ABOUT OUR WORLD  
AND WHAT ARE WE  
SUPPOSED TO DO ABOUT IT?**

**NOVEMBER 30, 2017**



# WHY DISCLOSURE TRAINING?

We are having today's disclosure training for the following reasons:

- School Districts want to ensure that they employ “best practices” with respect to their disclosure to investors (that is, we all want to get it right!);
- To sensitize you to the recent trend of the SEC's enforcement division substantially increasing its enforcement activity against municipal issuers and their officials and employees, and what they are concerned with; and
- To educate you as to what School Districts can do to defend any action charging it with negligence or recklessness.





# WHY ARE MUNICIPAL SECURITIES DIFFERENT AND WHY DOES IT MATTER?

Unlike corporate issuers, municipal securities are exempt from the requirement that they register their offerings. This means three things:

- The SEC does not have the authority to review municipal offerings or tell municipalities what they have to say in their offering documents;
- Unlike corporate issuers, municipalities do not have absolute liability for material misstatements or omissions in their disclosures; and
- Unlike corporate issuers, officers and directors, underwriters and other parties do not have to affirmatively establish a due diligence defense to avoid strict liability.

# WHY ARE MUNICIPAL SECURITIES DIFFERENT AND WHY DOES IT MATTER?

But...this has created significant differences in the disclosure used to offer and sell corporate securities and that used to offer and sell municipal securities:

- The SEC believes that the overall quality of disclosure used to sell corporate securities is much better; and
- “Secondary market” disclosure (e.g., disclosure to investors after the securities are issued and while they trade in the market) is much, much better.
  - In particular, the SEC believes that the municipal securities market is really unaware of (and thus not sensitive to the needs of) secondary market investors, which has led to some secondary market investors being significantly harmed.

# WHY ARE MUNICIPAL SECURITIES DIFFERENT AND WHY DOES IT MATTER?

The SEC has an agenda!!

- While municipal securities are exempt from the registration requirements of the Securities Act, they are nevertheless subject to the Federal antifraud laws; and
- The SEC sees the Federal antifraud laws as nothing more than a tool to try to make the municipal securities market behave like the corporate securities market in several key areas.

***That means, understanding how the SEC perceives the market, what it is trying to change and how that relates to what an issuer does, is the best way to avoid being part of this increased enforcement activity.***



# WHAT ARE OUR BONDS?

## Description of the School District Bonds and Resolution

- The School District general obligation bonds are primarily payable from the *ad valorem* property taxes.
- The General Obligation Bonds are governed by the California State Constitution, California State law and the Resolution, which pledges these *ad valorem* taxes, when collected, to the payment of the bonds.
- Proceeds of General Obligation Bonds issued under Prop 39 may be used for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities.



# HOW DO WE SELL OUR BONDS?

## Offering Documents

- When we sell long-term bonds, we prepare an offering document called a “preliminary official statement.”
- The preliminary official statement sets forth an extensive description concerning the assessed values of property in the School District and collections of ad valorem taxes, the financial and operating condition of the School District and a description of the bonds we are selling.
- Investors review the preliminary official statement in determining whether to purchase the bonds, and if so, at what rate.
- After we sell the bonds, we prepare a “final official statement” that contains the same information as the preliminary official statement together with the interest rates and other pricing information.



# WHAT HAPPENS AFTER OUR BONDS ARE ISSUED?

## **School District bonds trade in the market**

- General Obligation Bonds are frequently long-term bonds, which means that some of our bonds will remain outstanding for up to **40** years.
- These bonds regularly are bought and sold for many years after they are issued.
- An investor who purchases the bonds years after issuance may pay a price more or less than 100% of the principal amount, depending on then-prevailing interest rates, changes in a District's tax base or financial and operating condition, and general market conditions in the municipal securities market and other capital markets.

**A School District provides periodic updates to the financial and operating data contained in the official statement that investors use to decide whether purchase or sell the bonds.**



# THE BASICS OF FEDERAL ANTIFRAUD LAWS

The SEC has limited jurisdiction over issuers of municipal securities:

- What the SEC **cannot** do:
  - The SEC cannot review the content of their offering documents or even tell issuers what has to be included.
  - This is because issuers of municipal securities do not have any obligation to register the offer and sale of their securities under the Securities Act.
- What the SEC **can** do:
  - The Federal antifraud laws apply, which allows the SEC to bring an enforcement action against issuers of municipal securities for violation of those laws; and
  - The SEC can create and enforce broker-dealer rules, including Rule 15c2-12.



# THE BASICS OF FEDERAL ANTIFRAUD LAWS

## Federal antifraud laws

- Prohibit making material misstatements or omissions of material facts if necessary to avoid a misleading statement
- Two provisions:
  - Rule 10b-5
    - Requires a finding of scienter (intent or knowledge) which includes recklessness
    - Private right of action
  - Section 17(a)
    - Requires a finding of negligence
    - Only the SEC can enforce
    - Probably only applicable in primary offerings





# THE BASICS OF FEDERAL ANTIFRAUD LAWS

## How does securities fraud differ from other kinds of fraud?

- Not just misstatements but also omissions
  - Evaluates the totality of the statements and considers not just whether they are accurate but also whether they are misleading
- Securities fraud can happen even when the person making a statement does not intend have any intentionality.
  - Securities fraud can be predicated on as little as negligence

## What is material?

- Any fact a reasonable investor would consider to be important in making an investment decision
- Objective standard – from the investor’s perspective, not the issuer’s.



# THE BASICS OF FEDERAL ANTIFRAUD LAWS

What are the types of a District's disclosures that are subject to the Federal antifraud laws?

- **Primary offering documents** (offering documents the District uses to offer and sell its bonds):
  - Preliminary and Final Official Statements (including documents incorporated by reference)
- **Secondary offering materials** (reports the District sends to investors after (sometimes years after) the District issues its bonds):
  - Annual reports which provide a comprehensive update to the District's financial and operating condition;
  - Listed events
  - Voluntary filings
- **Any disclosure that is "reasonably expected to reach investors":**
  - Website information
  - Public statements



# THE BASICS OF FEDERAL ANTIFRAUD LAWS

## ***What the SEC has said:***

“Disclosure documents used by municipal issuers, such as official statements, are subject to the prohibition against false or misleading statements of material facts, including the omissions of material facts necessary to make the statements made, in light of the circumstances in which they are made, not misleading.” (1994 Interpretative Release)

“Public entities that issue securities are primarily liable for the content of their disclosure documents and are subject to proscriptions under the federal securities laws against false and misleading information in their disclosure documents.” (Orange County 21(a) Report)

# WHAT IS THE SEC GOING AFTER?

## — *Extraordinary Enforcement Activity*

- City of San Diego
- State of New Jersey
- City of Harrisburg
- West Clark Community Schools and MCDC
- City of Miami
- Port Authority of New York and New Jersey
- Among others....

# WHAT IS THE SEC GOING AFTER?

## — *Extraordinary Creativity*

- Use of negligence as a regulatory tool
- MCDC Initiative
- Control person liability
- Halting an offering (City of Harvey)

## — *Boldness*

- Challenged City of Miami in litigation in Federal District Court and won and won big....

# WHO IS THE SEC GOING AFTER?

SEC has brought actions against:

- States and local governments (the issuer);
- Officials and employees of issuers;
- Third parties (e.g., underwriters, financial advisors, disclosure counsel, and bond counsel)

**The key: the SEC has decided that actions against issuers have limited potential for correcting failures in the municipal securities market. This has led the SEC to specifically target individuals with a particular emphasis in charging individuals monetary fines.**



# WHAT IS THE SEC GOING AFTER?

## — ***SO....WHAT IS THE BIG PROBLEM?***

- Some history may help....
  - It used to be the case that....the municipal securities market was the “not-corporate securities” market...
  - We were proud we weren’t populated with the Enrons and Worldcoms of the world...
- Everything changed when....
  - City of San Diego and City of Harrisburg....
    - We’ll get into specifics later but....
    - ***Since January 2004 (when the City of San Diego filed its voluntary disclosure), we have learned that the municipal securities market has its own problems!!!***

# WHAT IS THE SEC GOING AFTER?

- ***What are the “problem areas” of the municipal securities market?***
  - **The “Silo” Effect**
    - ☐ New Jersey,
  - **Internally rather than externally focused**
    - ☐ New Jersey
  - **Lack of training**
    - ☐ New Jersey, West Clark Community Schools
  - **Political influence**
    - ☐ San Diego, Harrisburg, Miami, Port Authority
  - **Staff turnover**
    - ☐ West Clark Community Schools
- **When these problems are present, the SEC has learned that it can become tough for good information to get to investors to make informed investment decisions....**





# CASE EXAMPLES: CITY OF SAN DIEGO

## — *What happened?*

- City's obligations to pension plan were increasing rapidly (from \$51 million in 2002 to \$248 million in 2009);
- City completed five offerings and prepared and filed continuing disclosure information
- City did not disclose:
  - Growth of unfunded liability of pension plans;
  - Its obligations to its pension plans were going to increase substantially; and
  - It had a huge liability for retiree health benefits.
- There was a blue ribbon committee report and city manager's response to the report that detailed with remarkable precision the rapidly increasing contributions the city would have to make to its pension plan.
- There was a concerted effort by city officials to keep information concerning the pension plan problems from the local media and voters.

# CASE EXAMPLES: CITY OF SAN DIEGO

## — ***What did the SEC say?***

- The City violated Section 17 and Rule 10b-5 because it acted with scienter (knowledge of wrongdoing); and
- SEC required remedial efforts:
  - Independent consultant

## — ***Why does it matter?***

- Really started the current focus by SEC on municipal securities market
- Many themes that the SEC is focused on today with municipal issuers were present
  - Policies and procedures
  - Elephant in the room

# CASE EXAMPLES: STATE OF NEW JERSEY

## — *What happened?*

- The State adopted legislation in 2001 that increased retirement benefits;
- The 2001 legislation created “Benefit Enhancement Funds” that the State used to “fund” benefits but were in fact part of the plans themselves
- The State created and then abandoned a five-year phase-in of contributions
- The State did not adequately disclose many of these facts in their offerings from 2001 to 2007.

# CASE EXAMPLES: STATE OF NEW JERSEY

## — ***What the SEC said:***

- The failure of the State to disclose these facts “created the fiscal illusion that [the Pension Plans] were being adequately funded and masked the fact that New Jersey was unable to make contributions to [the Pension Plans] without raising taxes or cutting other services, or otherwise impacting the budget.”
- “Treasury had no written policies or procedures relating to the review or update of the bond offering documents. In addition, Treasury did not provide training to its employees concerning the State’s disclosure obligations under the accounting standards or the federal securities laws. Accordingly, the State’s procedures were inadequate for ensuring that material information concerning [the Pension Plans] or the State’s funding of [the Pension Plans] was disclosed and accurate in bond offering documents.”
- “As a result of the ***negligent*** conduct described above, the State violated Sections 17(a)(2) and 17(a)(3) of the Securities Act.” (emphasis added)



# CASE EXAMPLES: STATE OF NEW JERSEY

## — ***Why it matters so much:***

- Arguably the most important enforcement action against a municipal issuer since Orange County (1994)!!
- Why?
  - With New Jersey, the SEC announced a major shift in enforcement...
  - The SEC was no longer just looking at intentional deception—now, the SEC was targeting inadequate process....
  - The SEC started to look a lot more closely at not only “liars and cheats”, but also at negligence. issuers who are not careful in preparing and disseminating their disclosure.

# CASE EXAMPLES: CITY OF HARRISBURG

## — *What happened?*

- City of Harrisburg guaranteed debt for a solid waste facility;
- The solid waste facility wasn't able to generate enough revenues to pay its own debt service costs;
- City of Harrisburg learned in late 2008 that it would owe large amounts to cover for the solid waste facility's debt service;
- The City of Harrisburg went dark: the City did not file any of its required continuing disclosure filings from January 2009 until March 2011;
- Reports and other materials, including the Mayor's State of the City address, posted on the City's website were misleading because they did not explain the City's serious financial condition; and
- When the City of Harrisburg finally filed something, it announces that it was under extreme financial distress.

# CASE EXAMPLES: CITY OF HARRISBURG

## — **What the SEC said:**

- SEC predicated a violation of 10b-5 based on reports on their website:

*“As a result of Harrisburg’s multi-year failure to provide financial information and notices as Harrisburg had agreed pursuant to its Continuing Disclosure Certificates, investors and the trading markets did not have certain information regarding the City’s financial condition and had to seek out other public statements made by Harrisburg for current information on the City’s finances. Those public statements misrepresented and omitted to state material information regarding Harrisburg’s deteriorating financial condition and credit ratings downgrades resulting from the RRF debt guarantees.”*

- The SEC issued a 21(a) Report
  - Extraordinary step that seemed to be an effort to really call out the City of Harrisburg in a unique way
  - Essentially warned issuers not to do what Harrisburg had done



# CASE EXAMPLES: CITY OF HARRISBURG

## — *Why is it important?*

- It is the first SEC action predicated solely on secondary market disclosure and establishes that secondary market disclosures can form the basis of an enforcement action as much as primary offering disclosure;
- The SEC warns public officials that their statements can be the basis of an enforcement action; and
- The SEC makes a point: failure to file your continuing disclosure filings may not be a violation of the Federal antifraud laws, as such, but if an issuer acts with disregard to the needs of investors, the SEC will get the issuer one way or another...
- The fallout from Harrisburg was even more than this....



# CASE EXAMPLES: WEST CLARK COMMUNITY SCHOOLS

## — *What happened?*

- West Clark Community Schools, Clark County, Indiana, issued municipal bonds in 2005, and entered into a Continuing Disclosure Agreement pursuant to Rule 15c2-12 in connection with the Offering.
- The School District never submitted any annual reports, or any notice of failure to submit such reports, as required by the CDA.
- The School District issued an additional series of bonds in 2007, and in the Official Statement stated that “had never failed to comply, in all material respects, with any previous undertaking”

# CASE EXAMPLES: WEST CLARK COMMUNITY SCHOOLS

## ***What did the SEC say?***

- The School District knew, or was reckless in not knowing, that (a) it never submitted the reports, notices of disclosures required by the 2005 CDA, and (b) the 2007 Official Statement contained materially false information. The School District violated Section 17(a) and Rule 10b-5.
- Failure to provide annual financial information is required to be disclosed to an investor.
- In the settlement, the School District agreed to adopt policies and procedures naming an individual on District staff as responsible for compliance. District staff also had to undergo training and file any remaining missing filings.

# CASE EXAMPLES: WEST CLARK COMMUNITY SCHOOLS

## *Why is it important?*

- This case prefaced the Municipalities Continuing Disclosure Cooperation Initiative (otherwise known as MCDC, or the Amnesty Program).
- MCDC resulted in charges against 14 municipal underwriting firms and 71 municipal issuers and obligated persons.
- The SEC considered MCDC a huge success, in that it raised the issue of continuing disclosure compliance, and ensuring that noncompliance was accurately disclosed in offering documents
- MCDC is an example of the SEC's view of the Underwriters as gatekeepers to the municipal markets.

# CASE EXAMPLES: PORT AUTHORITY

## — *What happened?*

- Port Authority issued several series of bonds between 2012 and 2014 to fund so-called “Roadway Projects.”
- The Roadway Projects fell outside of the Port Authority’s statutory authority and financing them breached the terms of the Port Authority’s indenture
- Port Authority attorneys knew and in fact corresponded with each other about these authorization problems, but still issued legal opinions covering authorization. Port Authority never disclosed the risks related to authorization to bondholders.

## — *What did the SEC say?*

“Port Authority lawyers explicitly identified “the risk of a successful challenge by the bondholders and investors” in connection with the funding of the Roadway Projects. On multiple occasions, Port Authority lawyers cautioned that “projects that fall outside the scope of the Port Authority’s mandate would be ultra vires, and cannot, therefore, be undertaken by the Port Authority as a Port Authority project or funded by the Port Authority, in partnership with another governmental agency....” Yet, the Port Authority omitted disclosures in its relevant Official Statements concerning any risks surrounding the Port Authority’s legal authority to fund the Roadway Projects that were “necessary in order to make [certain statements in the Official Statements], in light of the circumstances under which they were made, not misleading.”



# CASE EXAMPLES: PORT AUTHORITY

## — *Why is it important?*

- SEC's Enforcement Division has stated that "garden variety" fraud within the municipal securities market is one of their high priorities. Port Authority is a major issuer and the SEC sends a message in early 2017 that it continues to pursue instances where issuers just fail to take their responsibilities to comply with the Federal antifraud laws.
- Port Authority paid \$400,000.
- Port Authority was the first municipal issuer to admit wrongdoing.
- A great example of how political considerations can impact disclosure.

# CASE EXAMPLES: CITY OF MIAMI

## — ***What did the City of Miami do?***

- City of Miami and its former budget director moved funds from capital and restricted accounts to the General Fund to enhance the perception of the City's General Fund;
- City's budget projections for General Fund showed that the City was at risk for bankruptcy; and
- SEC concluded that the City of Miami knowingly did this for the purpose of artificially inflating its bond ratings.

## — ***What did the SEC do?***

- The SEC sued Miami and its former budget director in Federal District Court;
- ***The SEC won!!***
- City of Miami paid a staggering \$1 million fine and former budget director a \$15,000 fine (after SEC's effort for a \$450,000 fine was reduced by court).



# CASE EXAMPLES: CITY OF MIAMI

## — *Why does it matter?*

- Market participants had long questioned whether the SEC would be willing to challenge an issuer of municipal securities in Federal district court or whether the SEC was just blowing hot air; and
- SEC used the opportunity to make as much of an example of Miami and its former budget director as possible.

## — *Also...litigation revealed a warning about reliance on experts...*

- City of Miami offered a defense to its liability that all of these transfers were disclosed in their financial statements and their auditors had provided an audit opinion and thus the City was justified in concluding that the transfers were appropriate.
- **The jury rejected this defense!**
  - The SEC's view is that this defense was only justified if the City disclosed the transfers to the auditors and the auditors specifically provided the advice that they were appropriate. The auditors never did this.



# OK: SO WHAT DO ISSUERS NEED TO DO?

## *Today, we will focus on four things:*

- Tell the credit story
- Follow good disclosure policies and procedures
- Make sure that any “elephant in the room” is disclosed
- Stay on top of secondary market disclosure (disclosure after – sometimes years after – the bond issuance)



## TELLING THE CREDIT STORY

- From the beginning, this has been the SEC’s main concern:  
“....issuers, their auditors and their counsel should also keep the big picture in mind. Don't let completing a disclosure process checklist become the goal unto itself.... So how does the team working on disclosures for a municipal securities offering avoid the proverbial conundrum of failing to see the forest for the trees? Among other things, I would suggest that the disclosure team have brainstorming sessions devoted to the larger issues and not to the specifics.” ***San Diego Lessons Learned Speech.***

# TELLING THE CREDIT STORY

- Director of Enforcement Division had three steps:
  - “The team should first identify the financial problems and issues that the municipality is struggling with, or worse yet avoiding. In other words, like San Diego, does the municipality have an elephant in its living room?”
  - The team and its members should conduct their own due diligence regarding the city and the issues it is facing to see if the city officials have brought everything to the team's attention-review council minutes, check local news reports.
  - Next, the team should carefully scrutinize the disclosure documents themselves. Are the financial issues and problems the team has identified fairly disclosed in the documents and expressed in language that can easily be understood? To continue the analogy, could the average investor read the disclosure documents and identify the animal as an elephant, know the size of the elephant, how the elephant was having a negative effect on the house, and how the issuer planned to get the elephant out of the house?”

# TELLING THE CREDIT STORY

- Telling the Credit Story is:
  - Understanding the big-picture condition of an issuer's credit;
    - It involves ensuring all information is obtained;
    - It involves thinking about all of the information to make sure that the issuer has a coherent understanding the credit ***from an investor's perspective***;
    - It involves the right people in a room asking the right questions to make sure that the issuer puts the most complete and accurate picture together.

# FOLLOW GOOD DISCLOSURE POLICIES AND PROCEDURES

## ***What are the major process failures by municipal issuers?***

- Failure to connect the silos
- Not thinking about the credit story from the investor's perspective
- Failure to talk about the elephant in the room and other politically motivated disclosure failures
- Failure to be systematic about the disclosure process

# FOLLOW GOOD DISCLOSURE POLICIES AND PROCEDURES

## *What are good disclosure policies and procedures?*

- Make sure it is clear who is responsible for what
  - Is it clear who is administrating the process, who should be involved in the process, and what they are expected to do?
- Horizontal and expert review
  - Are all the right people within the issuer involved with the disclosure process and reviewing what they should?
- Vertical review
  - Are people with the right positions of authority appropriately involved?
- Disclosure practices working group
  - Are the right people and departments within the issuer getting together to talk about disclosure in the right kinds of ways?
- Documentation
  - Is there a reasonable written trace of what has been done?
- Training



# DISCLOSING THE “ELEPHANT IN THE ROOM”

***Perhaps the most important thing for issuers to keep in mind is: Disclose the Elephant in the Room and Disclose it well. . .***

- *San Diego*: the elephant in the room was a rapidly increasing obligations to their pension plan;
- *Harrisburg*: the elephant in the room was the city’s guaranties of the solid waste facility’s debt and that the city simply did not have enough money to pay all of its obligations; and
- *Port Authority*: the elephant in the room was that the bonds were being issued for a project the Port Authority was not authorized to finance.

# DISCLOSING THE “ELEPHANT IN THE ROOM”

## ***Why don't issuers disclose the elephant in the room?***

- Individuals working on the disclosure really do not understand the issues or why investors would want to know that information;
- Individuals at the issuer are trying to bury the information from voters and the media;
- Political influence; and
- Individuals are trying to bury their heads in the sand.

# SECONDARY MARKET DISCLOSURE

## The basics:

### — 1994 Interpretative Release

“...when [a municipal issuer] releases information to the public that is **reasonably expected** to reach investors and the trading markets, those disclosures are subject to the antifraud provisions. The fact that they are not published for purposes of informing the securities market does not alter the mandate that they not violate antifraud proscriptions.” (emphasis added)

### — Harrisburg 21(a) Report:

“Public officials should be mindful that their public statements, whether written or oral, may affect the total mix of information available to investors, and should understand that these public statements, if they are materially misleading or omit material information, can lead to potential liability under the antifraud provisions of the federal securities laws.”

“Because statements are evaluated for antifraud purposes in light of the circumstances in which they are made, the lack of other disclosures by the municipal entity may increase the risk that municipal officials’ public statements may be misleading or may omit material information.”





# SECONDARY MARKET DISCLOSURE

What should we take away from this:

- Secondary market statements are as much subject to the Federal antifraud laws as primary offering statements
- The circumstances of the statements govern what those statements need to contain:
  - Primary offering documents purport to describe all factors material to an investment decision and the Federal antifraud laws test those statements in that light;
  - Secondary market disclosures, though, can vary.
    - Annual reports can purport to provide a comprehensive updating of the financial and operating condition.
    - Other filings will be evaluated based on their circumstances.

# SECONDARY MARKET DISCLOSURE

What should we take away from this:

- Issuers are responsible for the total mix of information available to investors: what really happened in Harrisburg?
  - If Harrisburg had provided full disclosure of its financial problems in its continuing disclosure filings, then that would have largely defined the total mix of information and statements on its website or by public officials would have been measured differently.
  - Because Harrisburg did not provide that full disclosure, anything Harrisburg said that was “reasonably expected” to reach investors became that “total mix of information.” The result: reports and speeches posted on websites became the basis of an enforcement action.

# SECONDARY MARKET DISCLOSURE

What should we take away from this:

- Make sure disclosure policies and procedures cover secondary market disclosures!!
  - SEC draws the same conclusion in its Harrisburg 21(a) Report.
  - Policies and procedures should cover:
    - Annual financial information filings
    - Other continuing disclosure filings
    - Websites—especially investor relations websites
    - Total mix of information considerations
    - Other potential statements

# WHEN DO THINGS GO WRONG?

In dealing with these issues, we have learned that there are five ways that issuers have failed to satisfy or have misunderstood their obligations under the Federal antifraud laws:

- They think that if they do not “lie,” they haven’t violated the securities laws;
- They focus almost exclusively on what they say and do not place equal emphasis on what they do not say;
- They confuse the kind of financial or operating information that political stakeholders (such as taxpayers) care about for the kind of financial or operating information that investors care about;
- They confuse what is acceptable dialogue in the political realm for what is acceptable dialogue in their securities disclosures; and
- They allow policy or political considerations to trump good securities disclosure.



# QUESTIONS?

