
July 16, 2016

CSBA Leadership Institute:

Spotlight on Student Success and Facilities: Facilities Financing Options Part III

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CSBA/DS&C: Presenters

Presenters



Dale Scott (President) has served as financial advisor to California school districts for over 30 years. During this time, he has worked throughout the State helping hundreds of districts access the capital markets as well as assisting them in seeking voter-approved debt. He is a frequent guest speaker at municipal bond seminars and school business official conferences. Dale began his career in Municipal Finance in 1979 with the firm Bache Halsey Stuart & Shields (later Prudential Bache). Prior to forming DS&C, he managed the Public Finance Department for Crocker Bank and Wells Fargo Bank. He has a Master's degree from Harvard University and a Bachelor's from San Francisco State University. He is the author of *Win Win: An Insider's Guide to School Bonds*.



Mark Farrell (Senior Financial Advisor) has advised California school and community college districts for over 14 years with expertise in planning general obligation bond programs, certificates of participation, and tax and revenue anticipation notes. He has managed the CSBA sponsored Cash Reserve Program TRAN pool since 2005. Prior to joining DS&C, Mark was a Managing Director with Piper Jaffray's California education group. Mark has worked on over 250 financings totaling over \$11 billion for California school districts. He holds a Bachelor's degree from the University of Pennsylvania and Masters of Business Administration from the Anderson School at UCLA.

Section One: **Background**

CSBA/DS&C: **Background**

School District Finance Facilities Through the Issuance of Municipal Bonds

GENERAL OBLIGATION BONDS

- **Requires voter approval (55% or 2/3 of popular vote)**
- **Debt secured solely by local property taxes - no general fund liability**

MELLO-ROOS BONDS

- **Requires voter approval (2/3 of landowners - if less than 12, or of popular vote) to create community facilities district (CFD)**
- **Boundaries and tax method highly flexible**
- **Secured solely by special taxes levied on CFD**

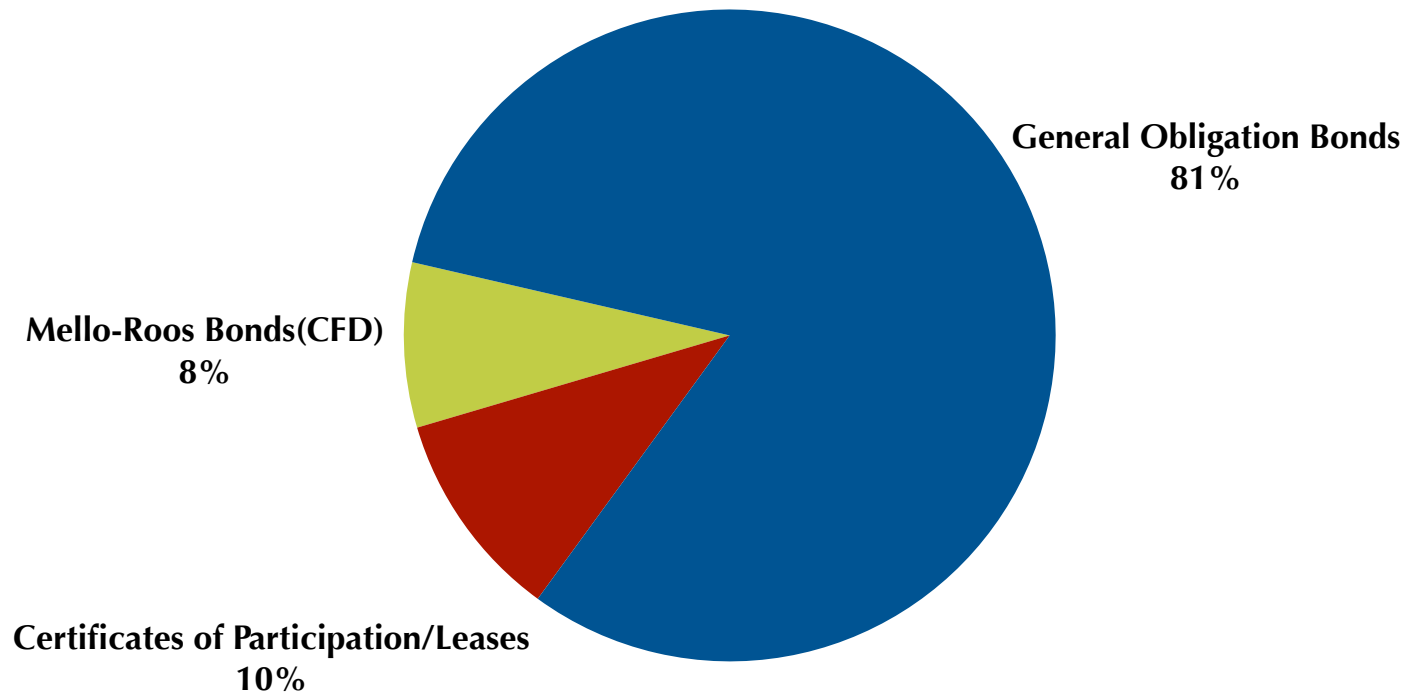
CERTIFICATES OF PARTICIPATION

- **No voter approval required**
- **Lease of existing site to create security sold to investors**
- **Requires general fund pledge**

CSBA/DS&C: **Background**

School District Finance Facilities Through the Issuance of Municipal Bonds

2015 California K-14 New Money Bond Issuance by Number of Issues



Source: California State Treasurer's Office

CSBA/DS&C: **Background**

Prior to Prop 39, Requirement Was Two-Thirds

INTRODUCTION

- 1. What is a tax-exempt bond and why does it matter?**
- 2. What is a general obligation bond?**
 - i. General fund pledge vs. tax lien pledge**

HISTORICAL OVERVIEW

- 1. Prior to Prop 13, GO bonds required two-thirds**
- 2. Prop 13 eliminated the ability to sell GO Bonds (1978)**
- 3. Amended in 1986 to once again allow for two-thirds bonds**
- 4. From 1985 to 2000, GO bond win rate was 57%**

CSBA/DS&C: **Background**

Prop 39 Requirements Based on Political Calculations Made in 2000

PROPOSITION 39 BACKGROUND

- 1. First attempt (Prop 26 in March 2000) would have lowered voter threshold to 50%+1**
- 2. Failed in a statewide election by less than 90,000 votes (less than 1%)**
- 3. Prop 39 placed on November 2000 ballot**
- 4. Originally proposed with hard tax rate caps; proposal pulled after industry complaints**
- 5. Replaced with “soft-cap” language**
- 6. Passed in November 2000 (53.4% yes); enacted January 2001**

CSBA/DS&C: **Background**

Current Requirements

PROPOSITION 39 REQUIREMENTS

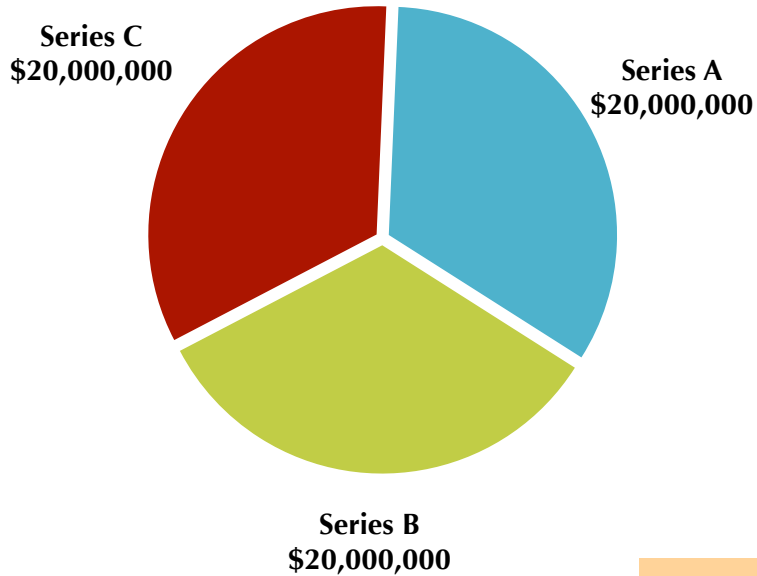
- 1. 55%+1 voter approval**
- 2. Measures to be placed on general election dates**
- 3. Allows for the funding of equipment**
- 4. Requires 4/5ths vote of Board seats to be placed on ballot**
- 5. Requires citizens oversight committee and annual audits**
- 6. Tax rate caps placed on tax-rate projections**
 - i. \$30/\$100,000 of AV for ESDs/HSDs**
 - ii. \$60/\$100,000 of AV for USDs**
 - iii. \$25/\$100,000 of AV for CCD**

Section Two: **Preparing to Put a Bond on the Ballot**

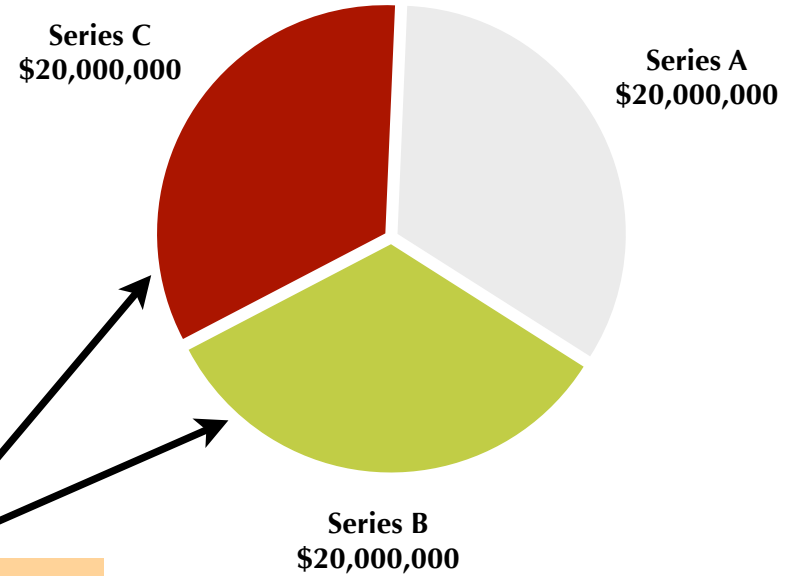
CSBA/DS&C: Bonding Authority

Bonds Do Not Cost Taxpayer Until Issued

Proposed Financing Plan for \$60 Million Bond Program



After First Sale



Authorized but unissued

CSBA/DS&C: Bond Types

Current Interest Bonds and Capital Appreciation Bonds

Date	5.00% Current Interest Bond			5.00% Capital Appreciation Bond		
	Principal	Interest	Total	Principal	Interest	Total
Feb 1, 2017	-	\$25,000	\$25,000	-	-	-
Aug 1, 2017	-	\$25,000	\$25,000	-	-	-
Feb 1, 2018	-	\$25,000	\$25,000	-	-	-
Aug 1, 2018	-	\$25,000	\$25,000	-	-	-
Feb 1, 2019	-	\$25,000	\$25,000	-	-	-
Aug 1, 2019	-	\$25,000	\$25,000	-	-	-
Feb 1, 2020	-	\$25,000	\$25,000	-	-	-
Aug 1, 2020	-	\$25,000	\$25,000	-	-	-
Feb 1, 2021	-	\$25,000	\$25,000	-	-	-
Aug 1, 2021	-	\$25,000	\$25,000	-	-	-
Feb 1, 2022	-	\$25,000	\$25,000	-	-	-
Aug 1, 2022	-	\$25,000	\$25,000	-	-	-
Feb 1, 2023	-	\$25,000	\$25,000	-	-	-
Aug 1, 2023	-	\$25,000	\$25,000	-	-	-
Feb 1, 2024	-	\$25,000	\$25,000	-	-	-
Aug 1, 2024	-	\$25,000	\$25,000	-	-	-
Feb 1, 2025	-	\$25,000	\$25,000	-	-	-
Aug 1, 2025	-	\$25,000	\$25,000	-	-	-
Feb 1, 2026	-	\$25,000	\$25,000	-	-	-
Aug 1, 2026	\$1,000,000	\$25,000	\$1,025,000	\$1,000,000	\$638,616	\$1,638,616
	\$1,000,000	\$500,000	\$1,500,000	\$1,000,000	\$638,616	\$1,638,616

CSBA/DS&C: How Bonds Are Structured

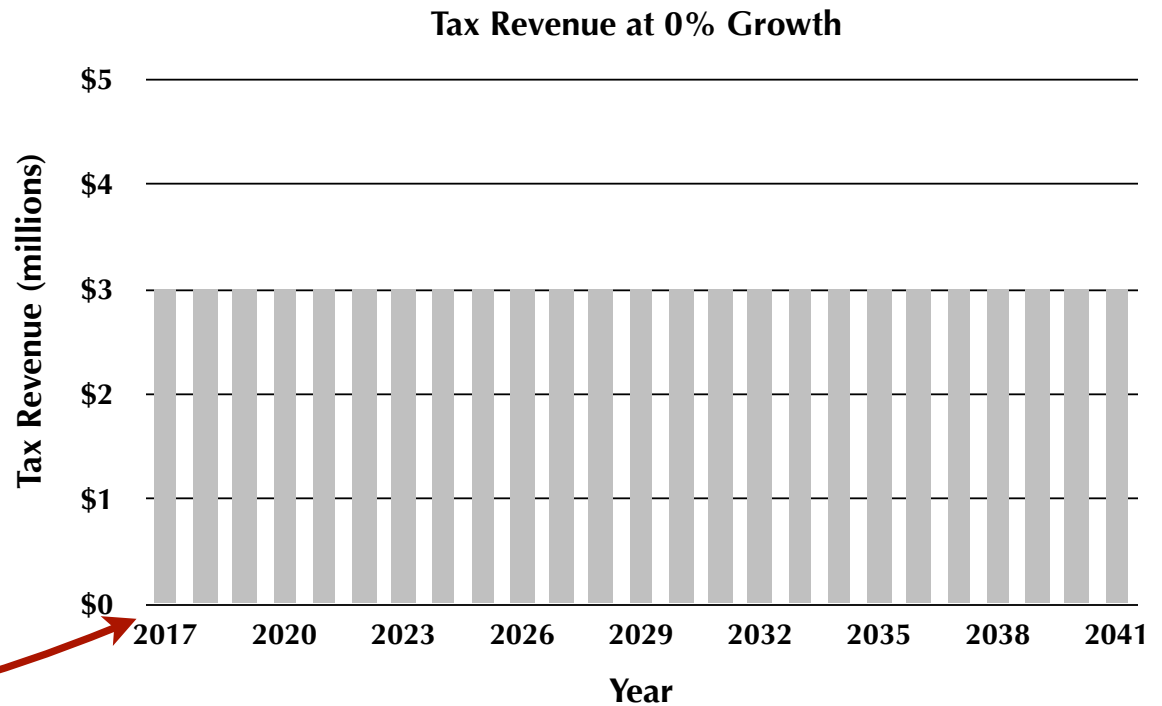
Projected Tax Revenue Calculated by Applying Tax Rate to Assessed Valuation

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 25 years
- 5% interest rate
- AV growth rate = 0%

Result:

- \$75 million of tax revenue over 25 years



CSBA/DS&C: How Bonds Are Structured

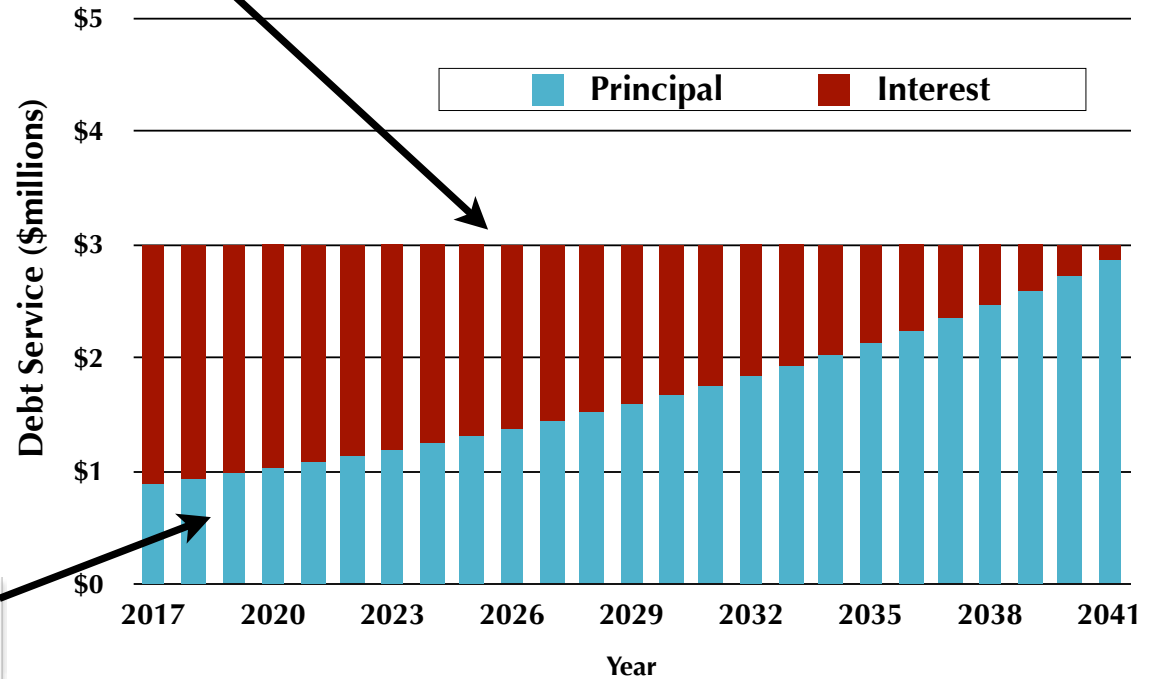
Level Debt Service the Most Conservative

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 25 years
- 5% interest rate
- AV growth rate = 0%

Interest:
\$32.7 million

Level Debt Service



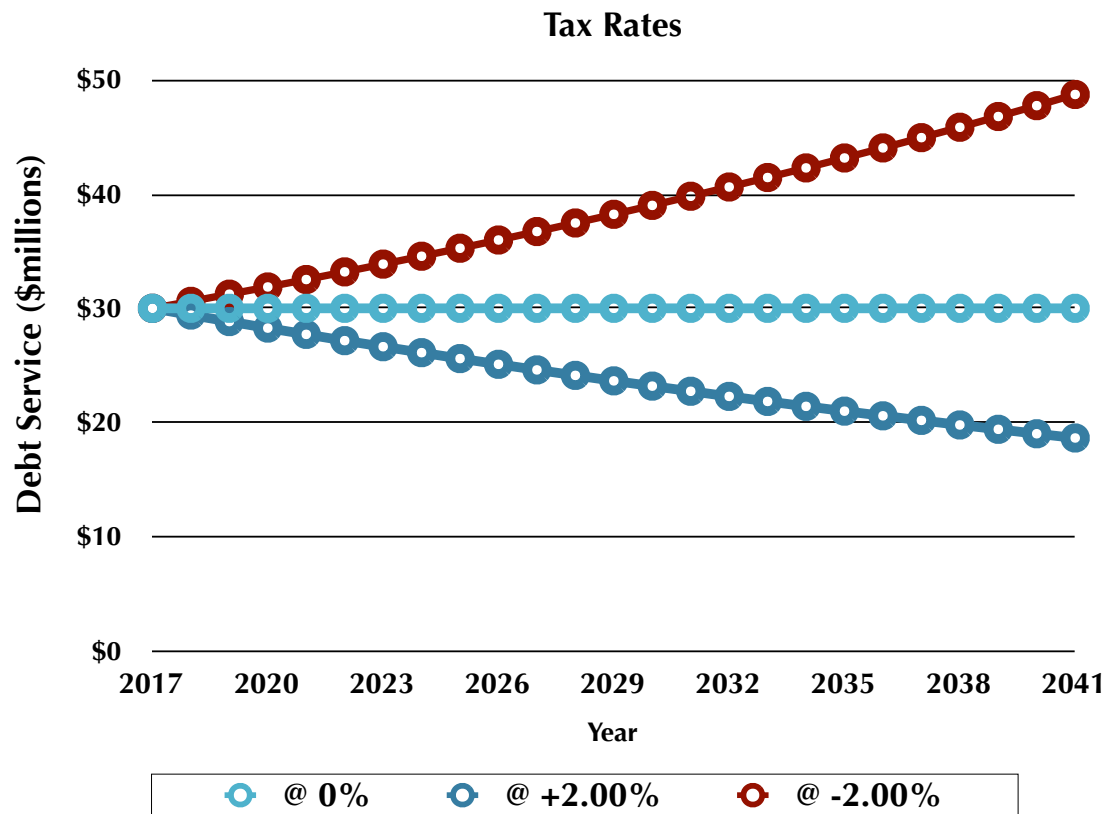
Principal:
\$42.3 million

CSBA/DS&C: Relationship of AV Growth to Tax Rates

Actual Cost to Taxpayers is Dependent on Future AV Growth

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 25 years
- 5% interest rate



CSBA/DS&C: Statutory Debt Limit

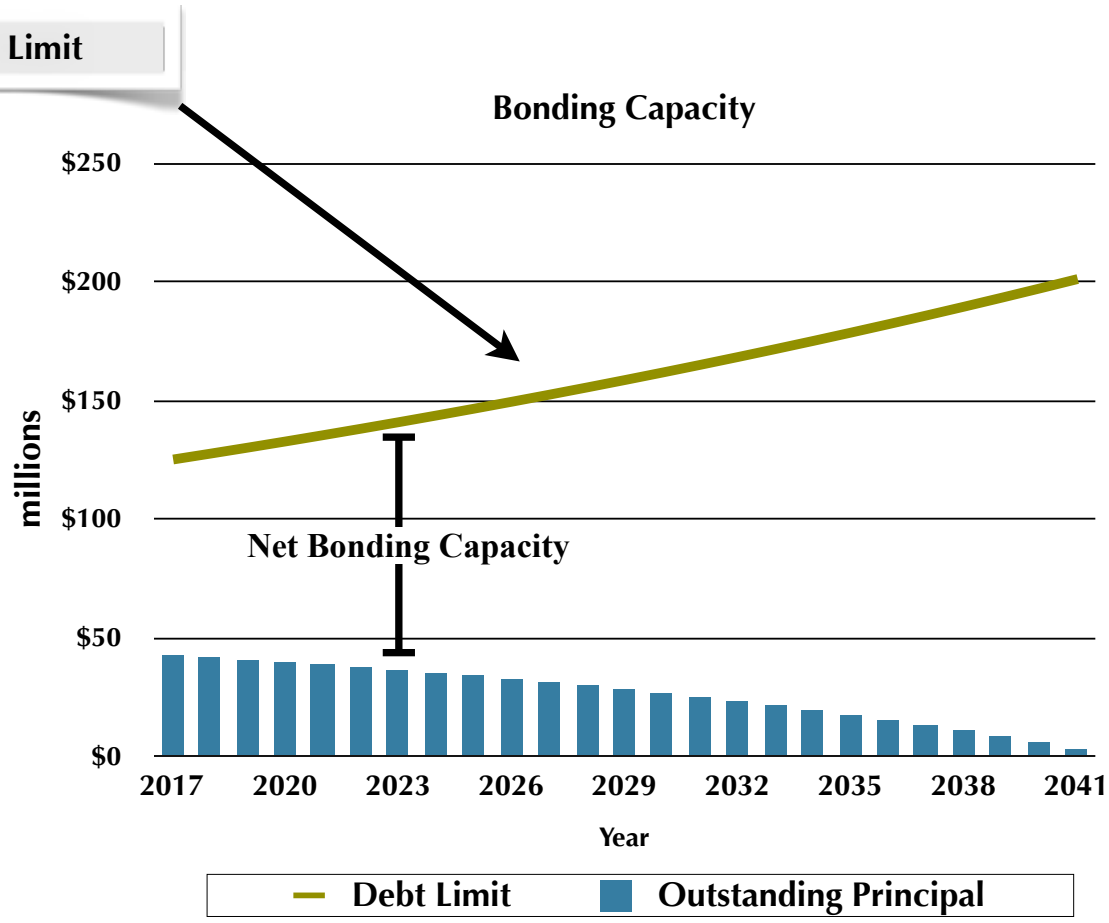
Statutory Debt Limits Can Be Waived by State

Assumptions:

- Current AV = \$10 billion
- Debt limit = 1.25% AV
- Term: 25 years
- Bond amount = \$42.3 million
- AV growth rate = 2%

Quick Notes:
Statutory Debt Limit:

- 1.25% of AV for ESDs & HSDs
- 2.50% of AV for USDs & CCDs



CSBA/DS&C: **Pre-Election Planning**

Assembling the Team

- 1. Financial advisor**
- 2. Underwriter**
 - i. Competitive vs. negotiated sale**
 - ii. To be discussed in greater detail but be aware decision is often made at this point without knowing it**
- 3. Bond counsel**
- 4. Pollster**
- 5. Election Consultant**
- 6. Recent AG Opinion re Pre-Election Costs**

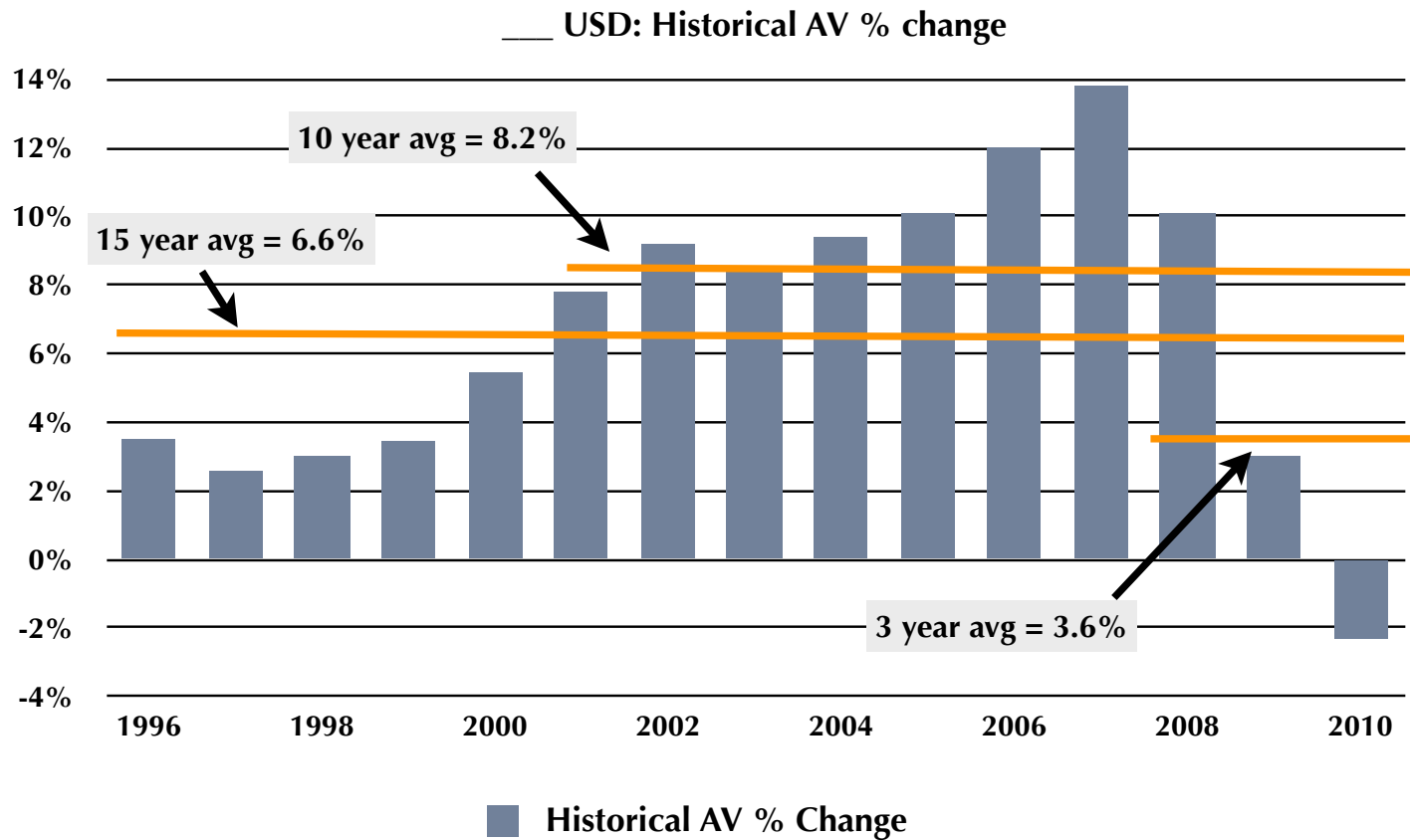
CSBA/DS&C: **Preparing to Put a Bond on the Ballot**

Drafting the Project List

- 1. What can be financed?**
 - i. Construction, acquisition, improvements**
 - ii. Equipment**
 - iii. Occasionally used to repay outstanding debt but should be used with caution**
 - iv. Administrative costs of implementing bond program including election costs, construction management, etc.**
- 2. What can't be financed?**
 - i. Salaries**

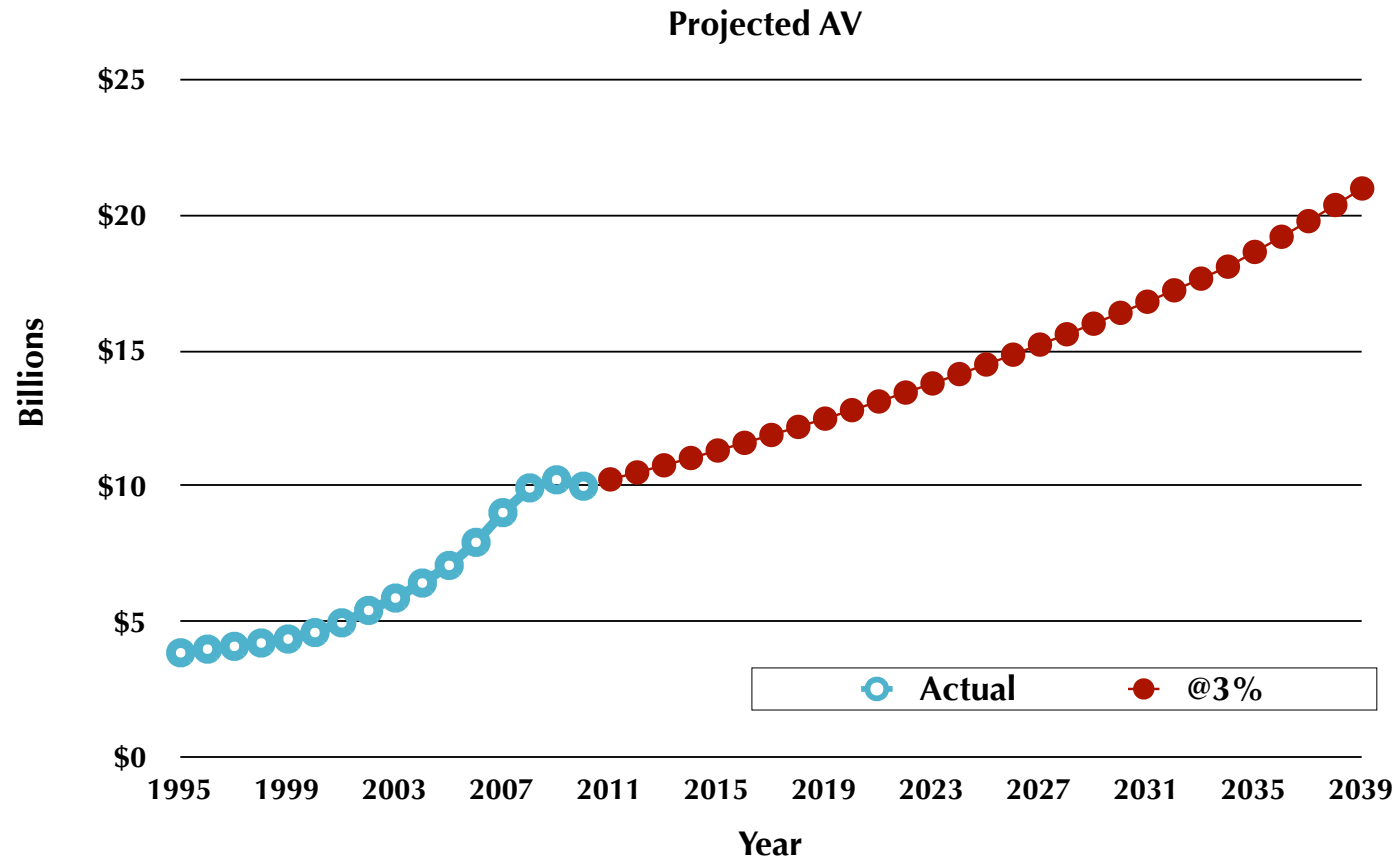
CSBA/DS&C: Building a Tax Rate Model

Relying Solely on Past Growth is Discouraged



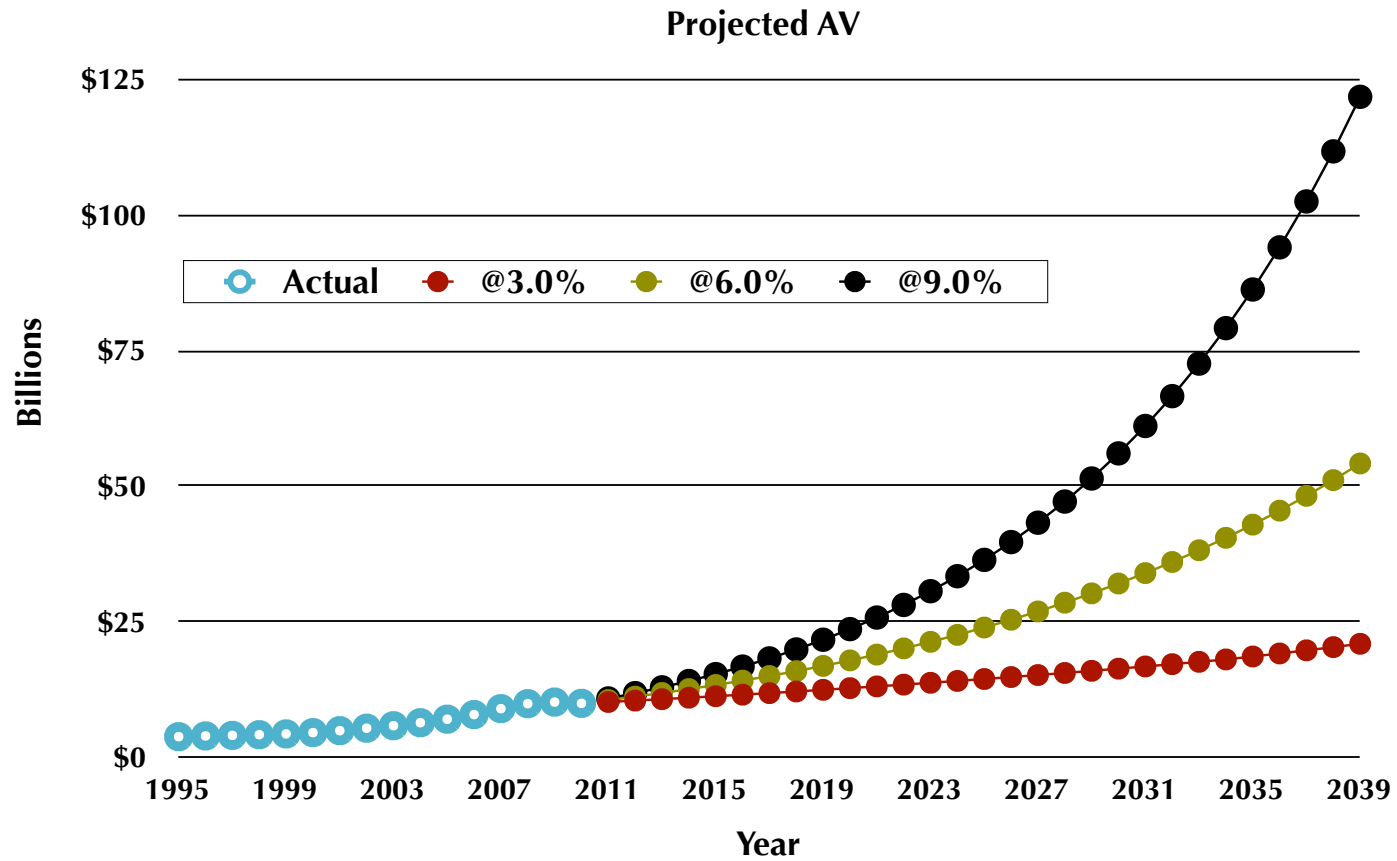
CSBA/DS&C: Building a Tax Rate Model

AV Growth @ 3% per Year



CSBA/DS&C: Building a Tax Rate Model

Beware of Unrealistic AV Growth Rates



CSBA/DS&C: Building a Tax Rate Model

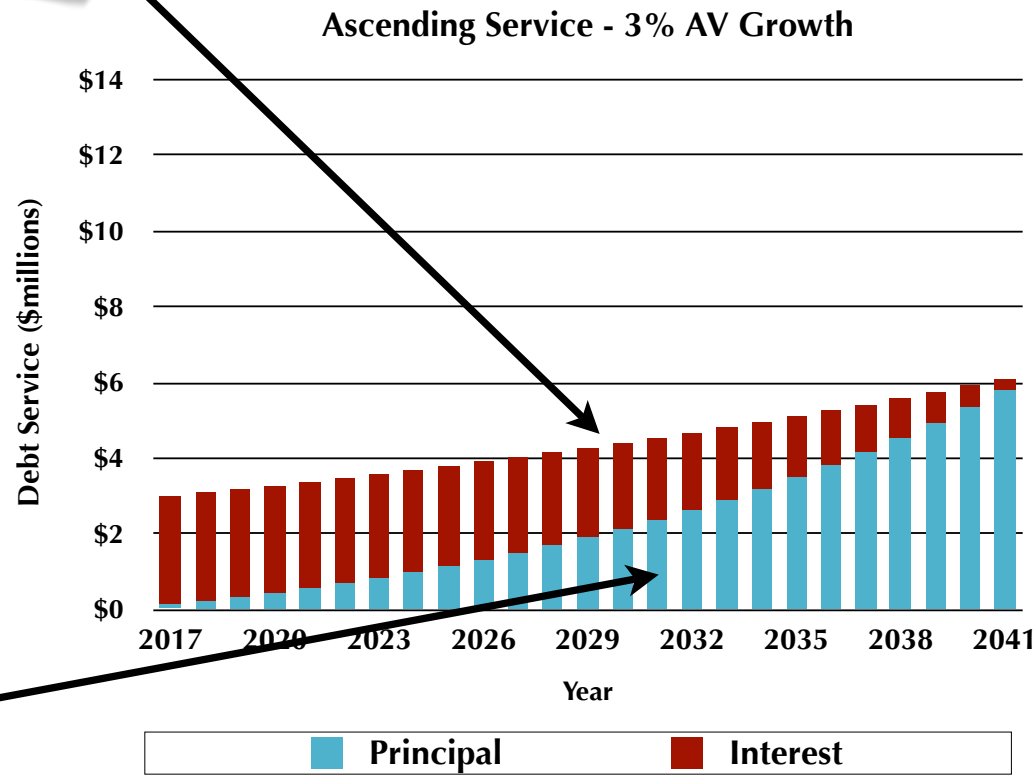
Growth Rate Assumptions Impact Size of Bond Authorization

**Interest:
\$52.1 million**

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 25 years
- 5% interest rate
- AV growth rate = 3%
- Debt ratio: 1.9:1

**Principal:
\$57.3 million**



CSBA/DS&C: Building a Tax Rate Model

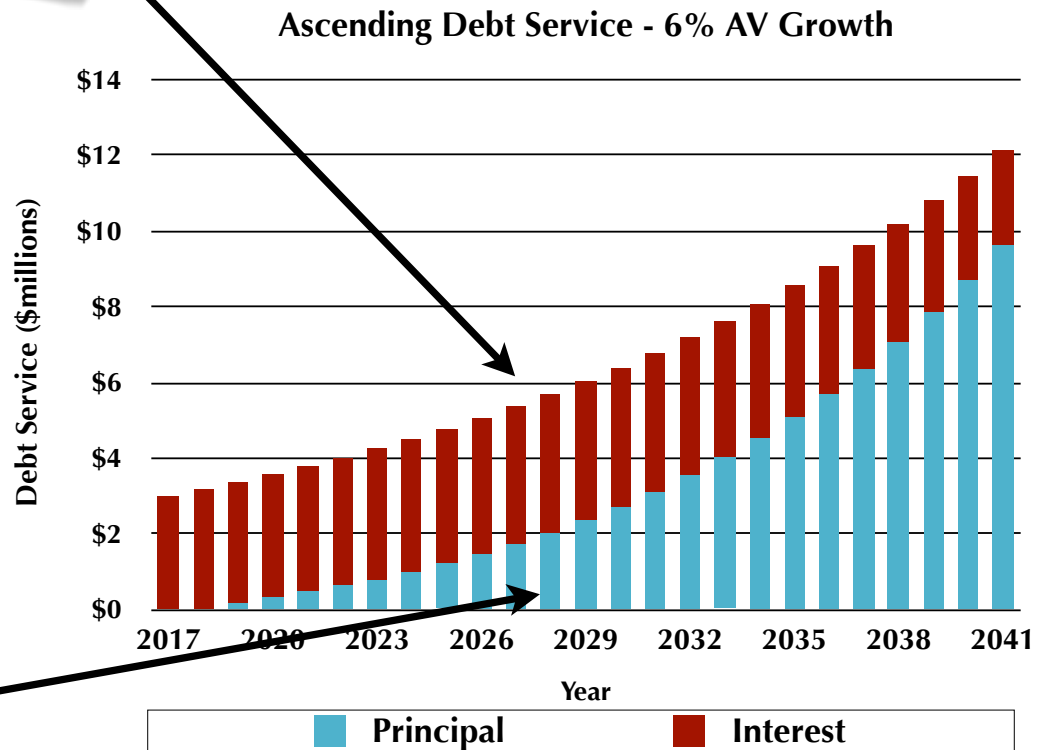
Growth Rate Assumptions Impact Size of Bond Authorization

**Interest:
\$84.9 million**

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 25 years
- 5% interest rate
- AV growth rate = 6%
- Debt ratio: 2.1:1

**Principal:
\$80.7 million**



CSBA/DS&C: Building a Tax Rate Model

Additional Bond Series Can Increase Authorization

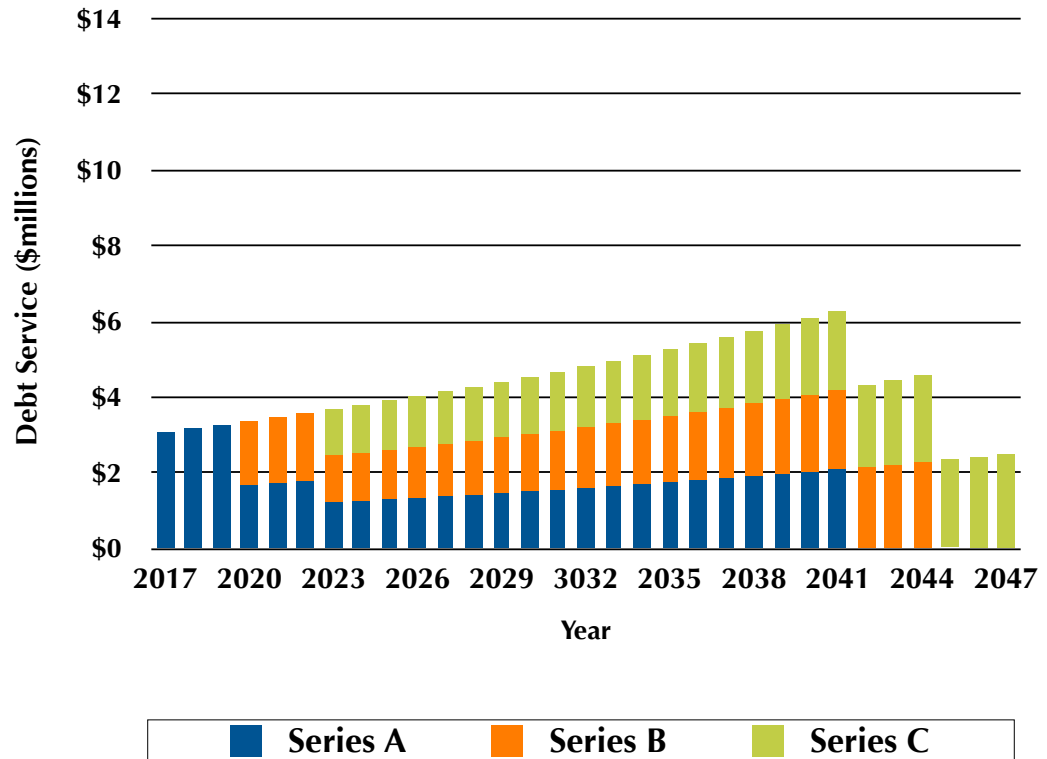
**Interest:
\$59.9 million**

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 31 years
- 5% interest rate
- AV growth rate = 3%
- Debt ratio: 1.8:1

**Principal:
\$73.3 million**

Ascending Debt Service - 3% AV Growth/ 3 Series



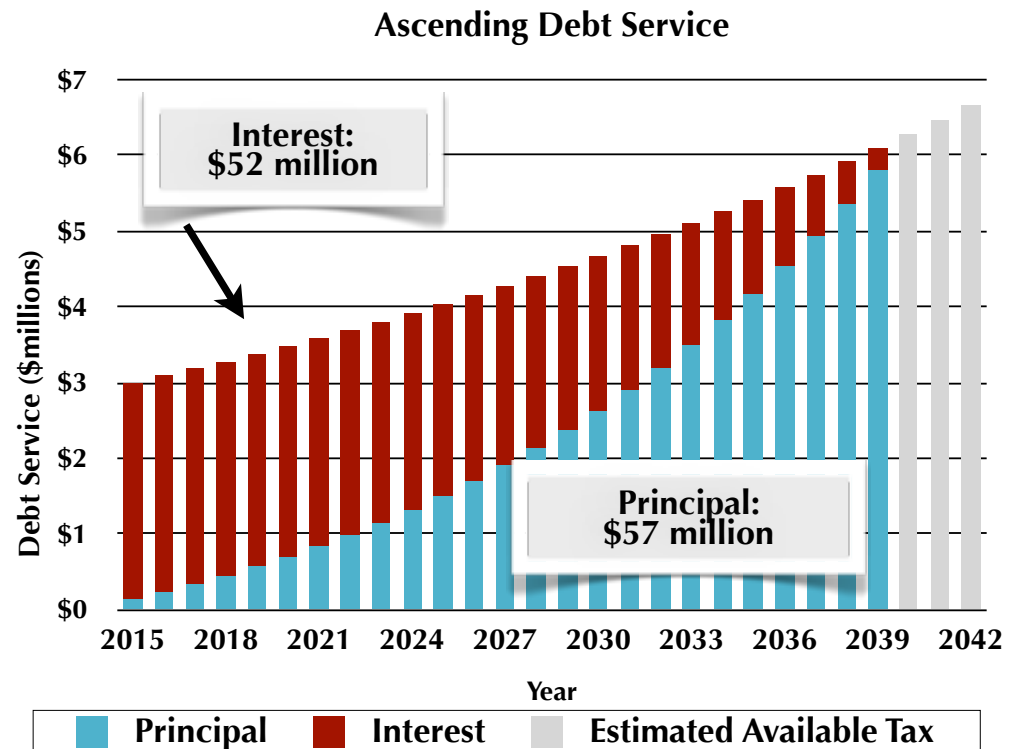
CSBA/DS&C: How CABs Work

Long Term CABs Were Often Turned to When Tax Rates Had Been Reached

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 28 years
- AV growth rate = 3%

	Series A	Series B	Total
Principal	\$57.0		\$57.0
Interest	\$52.0		\$52.0
Total	\$109.0		\$109.0
Debt Ratio	1.91		1.91



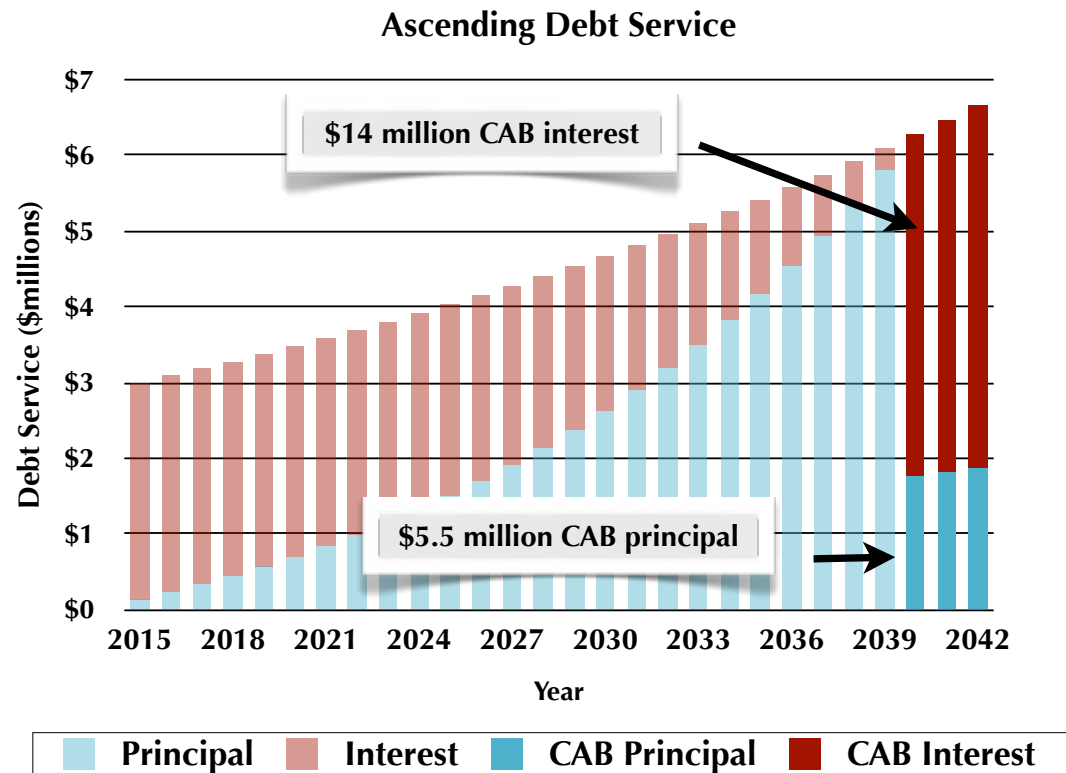
CSBA/DS&C: How CABs Work

Long Term CABs Were Often Turned to When Tax Rates Had Been Reached

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 28 years
- AV growth rate = 3%

	Series A	Series B	Total
Principal	\$57.0	\$5.5	\$62.5
Interest	\$52.0	\$14.0	\$66.0
Total	\$109.0	\$19.5	\$128.5
Debt Ratio	1.91	3.55	2.06



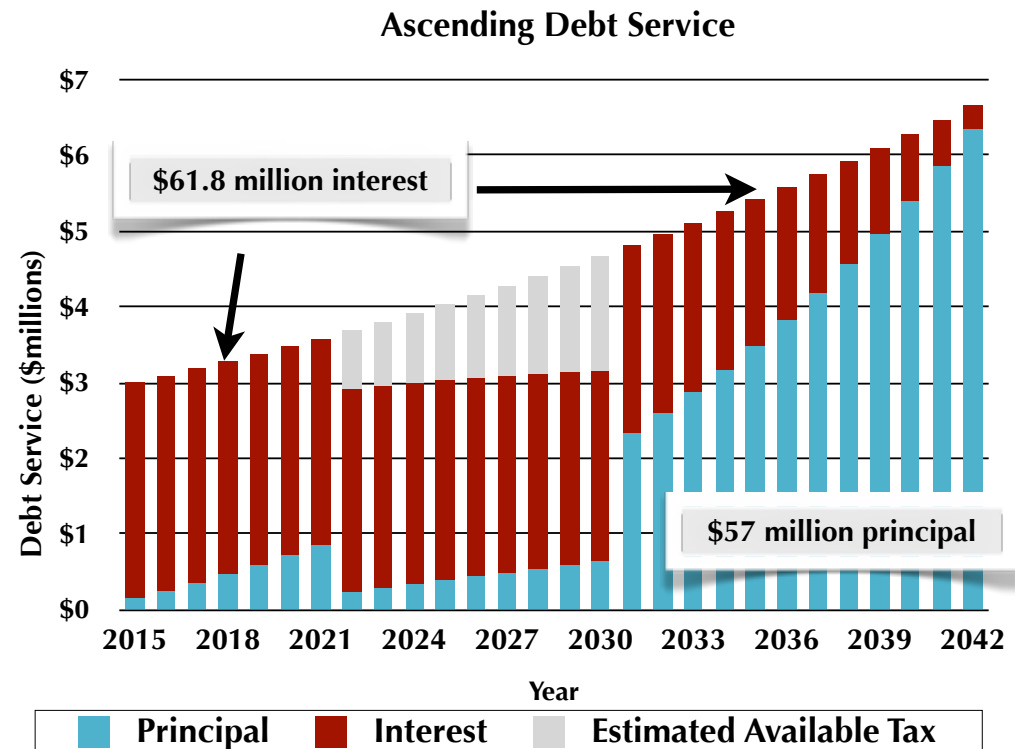
CSBA/DS&C: How CABs Work

CABs Can Be Useful in Utilizing Available Future Tax Revenues

Assumptions:

- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 28 years
- AV growth rate = 3%

	Series A	Series B	Total
Principal	\$57.0		\$57.0
Interest	\$61.8		\$61.8
Total	\$118.8		\$118.8
Debt Ratio	2.08		2.08



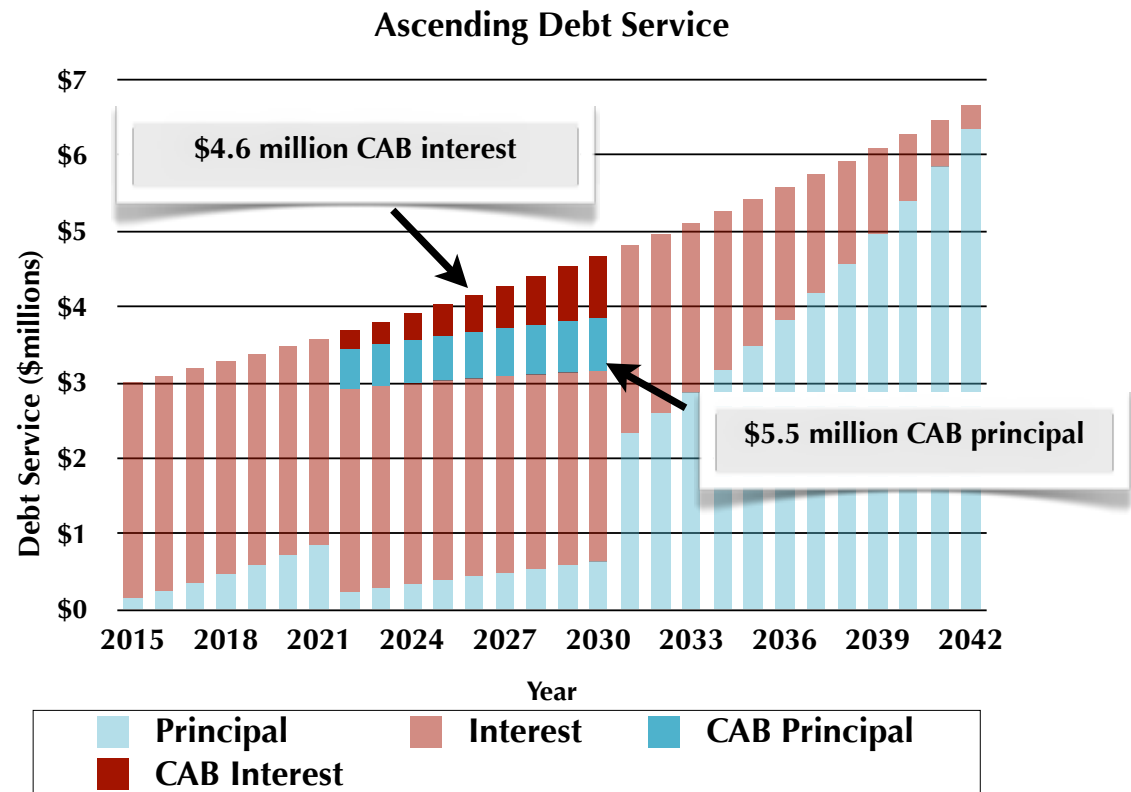
CSBA/DS&C: How CABs Work

CABs Can Be Useful in Utilizing Available Future Tax Revenues

Assumptions:

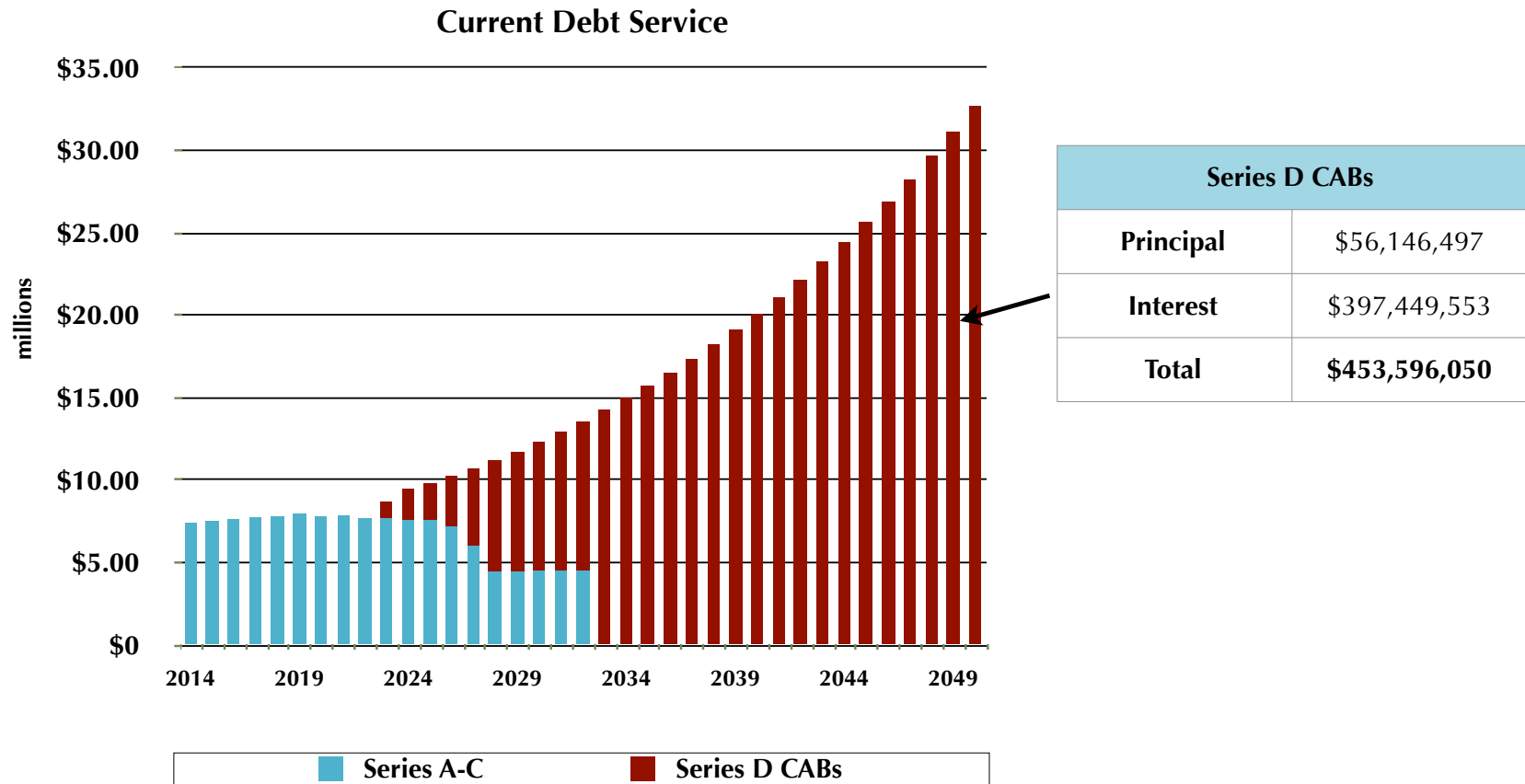
- Current AV = \$10 billion
- \$30/\$100,000 tax rate
- Term: 28 years
- AV growth rate = 3%

	Series A	Series B	Total
Principal	\$57.0	\$5.5	\$62.5
Interest	\$61.8	\$4.6	\$66.4
Total	\$118.8	\$10.1	\$128.9
Debt Ratio	2.08	1.84	2.06



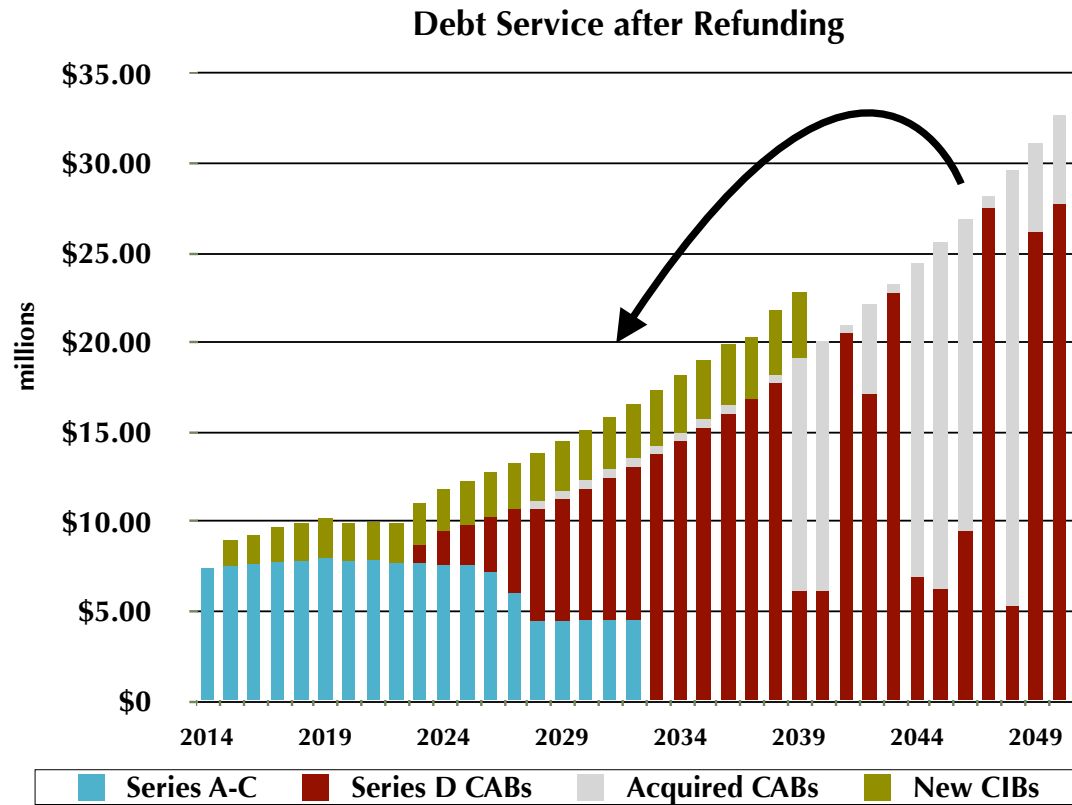
CSBA/DS&C: Case Study - Stockton USD CAB Restructuring

Series D CABs Issued in Order to Project Tax Rate Below Prop 39 Limit



CSBA/DS&C: Case Study - Stockton USD CAB Restructuring

Stockton CAB Restructure Produced \$72.2 million in Taxpayer Savings



Final Savings Report	
% of CABs Refunded	30%
Total Refunded Debt Service	\$138,168,250
Less: New CIB Payments	\$65,978,486
Net Taxpayer Savings	\$72,189,764
Present Value of Savings*	\$6,763,596
PV Savings % of Refunding Bonds	18.3%

* Discounted at arbitrage yield of 3.69%

* Discounted at arbitrage yield (3.69%)

CSBA/DS&C: CAB Restructuring Bonds

Over \$260 Million of Taxpayer Dollars Saved by Restructuring CABs

CAB RESTRUCTURING BENEFITS

- Provides solution to controversial, high-cost CABs
- Creates opportunity to save taxpayers millions of dollars in future interest payments
- Reduces tax burden on future generations
- Increases future bonding capacity

DS&C CAB Restructuring Program Recent Successful Transactions

District	County	Closing Date	% of CABs Restructured	Net Taxpayer Savings
Stockton USD	San Joaquin	9/11/14	30%	\$72,189,764
Jefferson Union HSD	San Mateo	10/2/14	63%	\$59,291,624
Ceres USD	Stanislaus	2/10/15	27%	\$25,174,537
San Leandro USD	Alameda	4/7/15	32%	\$16,710,426
Lakeside Union SD	San Diego	6/24/15	19%	\$9,326,795
Yuba CCD	Yuba	6/30/15	42%	\$14,293,600
Santee SD	San Diego	2/3/2016	57%	\$19,325,605
Napa Valley USD	Napa	1/21/2016	77%	\$45,629,676
Total Taxpayer Savings				\$261,942,027

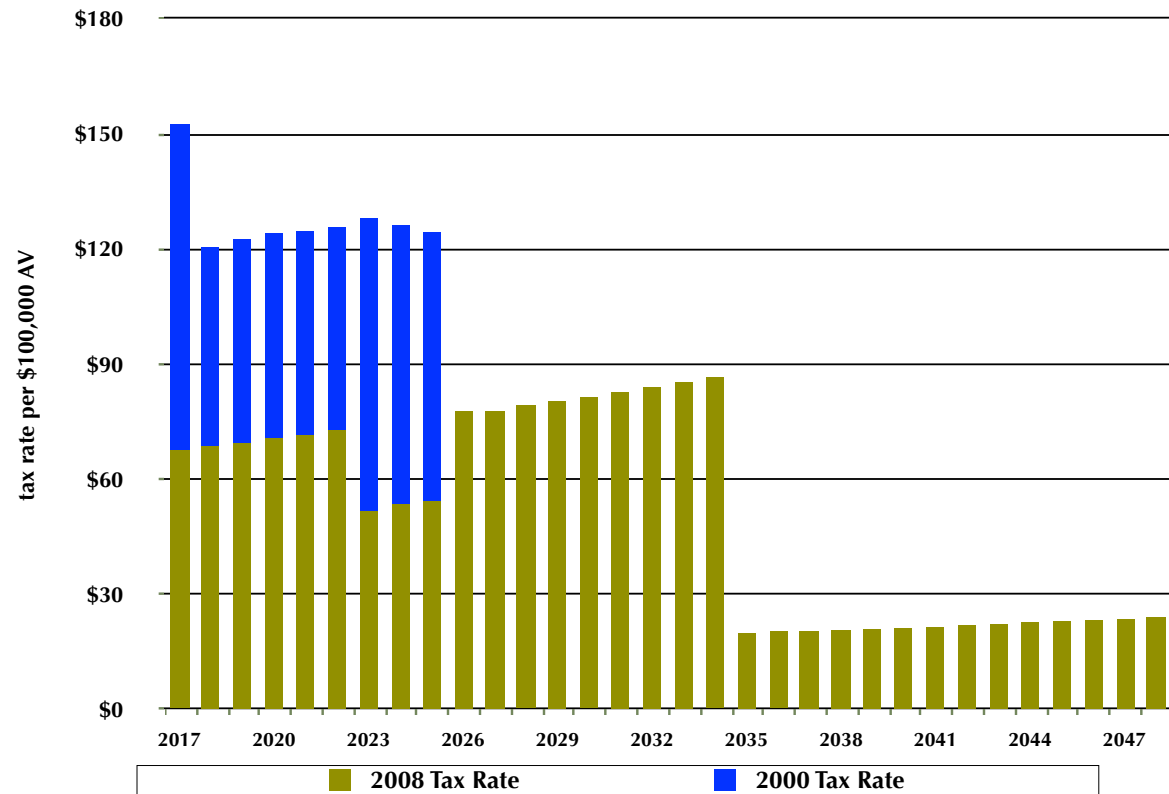
CSBA/DS&C: Tax Rate Extension Bonds

Tax Rate Extensions Can Work in Special Circumstances

Previous Elections:

- 2000 = \$10 million
- 2000 = \$10 million

Projected Annual Tax Rates*



Quick Notes:
 Tax Rate Extension elections often rely on sale of long-term CABs. Handle with care.

* Assumes 3.5% AV Growth Rate

CSBA/DS&C: Tax Rate Extension Bonds

Tax Rate Extensions Can Work in Special Circumstances

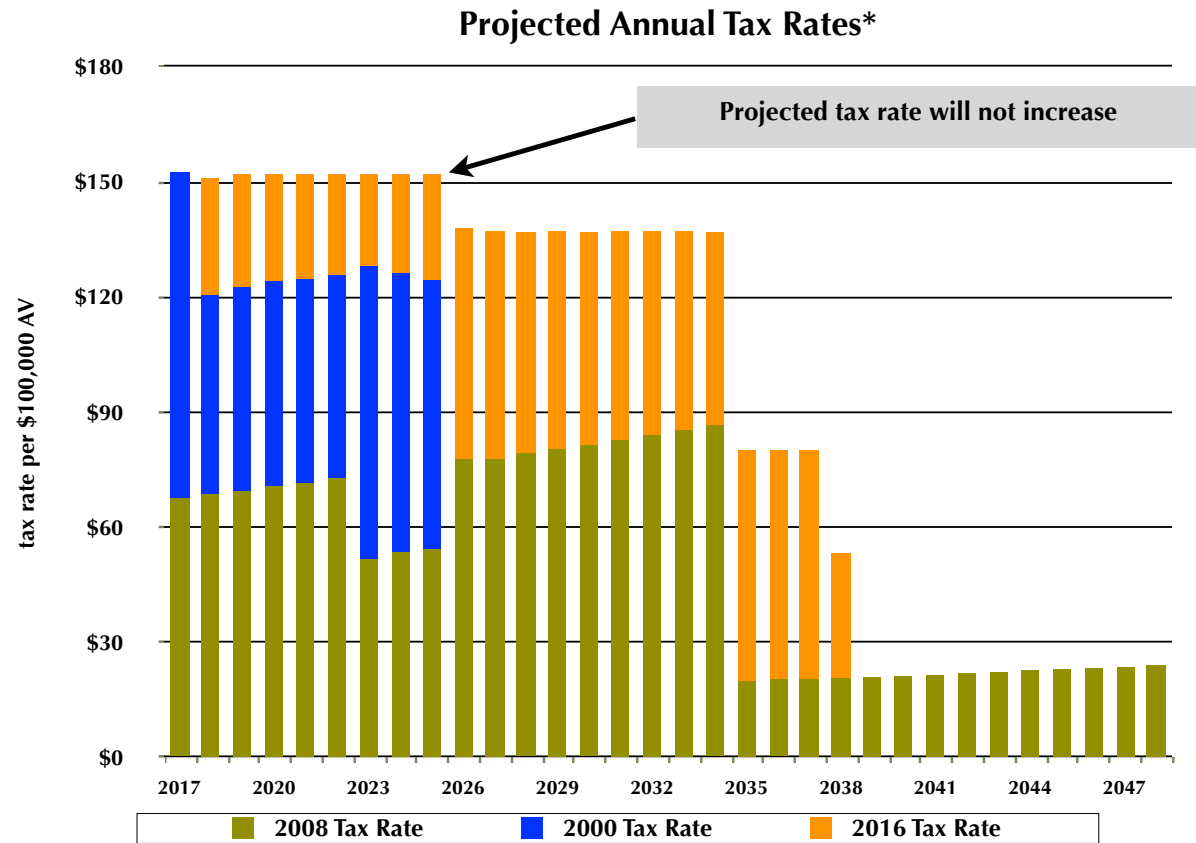
Previous Elections:

- 2000 = \$11 million
- 2008 = \$14 million

New Election

- 2016 = \$11 million

Quick Notes:
 Tax Rate Extension elections often rely on sale of long-term CABs. Handle with care.



CSBA/DS&C: School Facility Improvement District Bonds

SFIDs Allow for Creation of Special Taxing Areas

Chula Vista ESD:

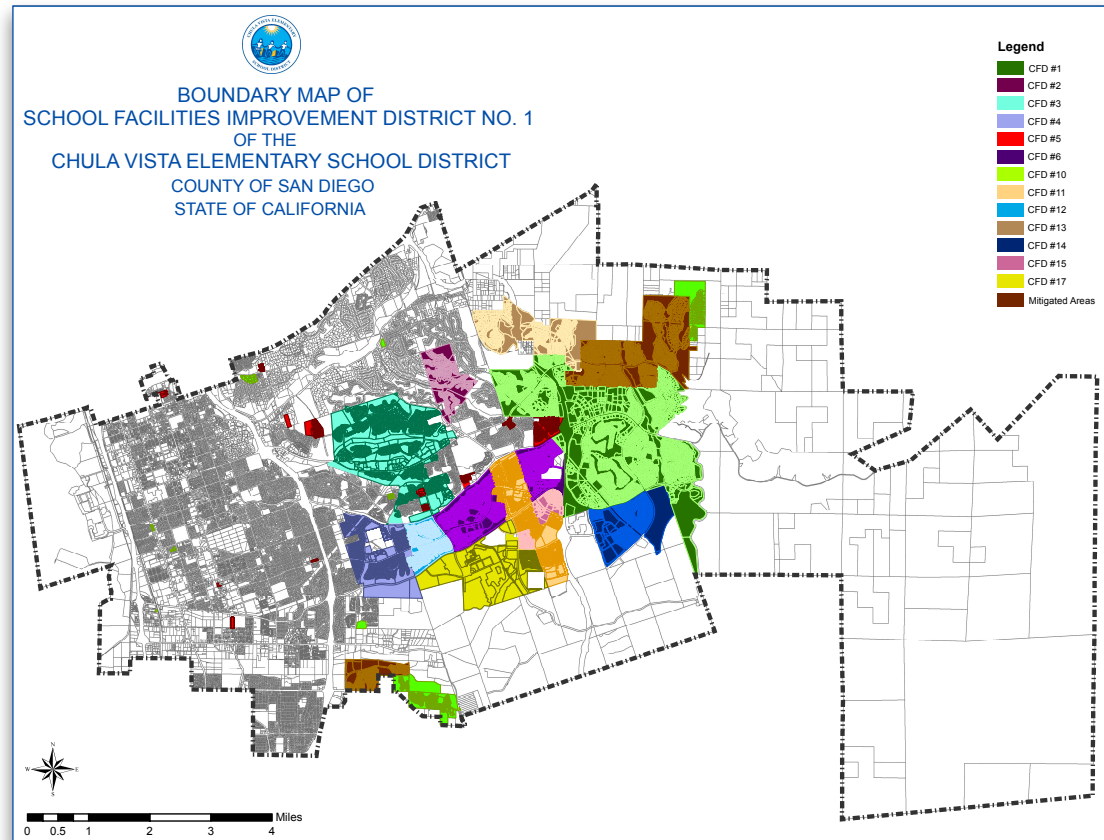
- AV = \$27.9 billion
- Debt Limit = \$349 million

Chula Vista SFID #1

- AV = \$12.3 billion
- Debt Limit = \$154 million

Quick Notes:

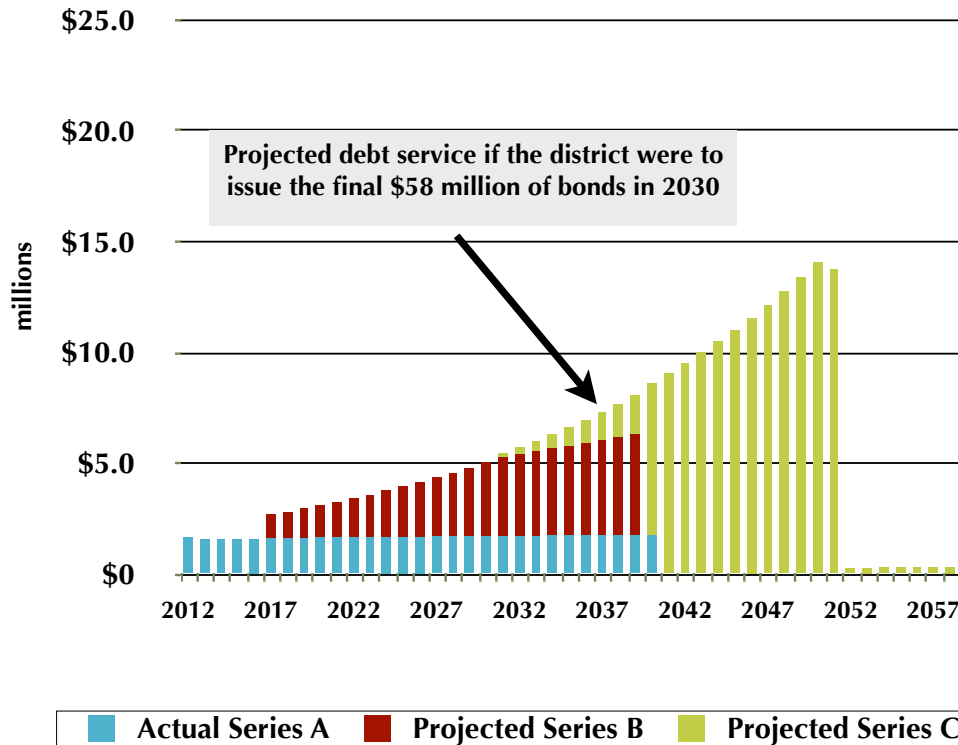
Allow extra time for creation of SFID.



CSBA/DS&C: Case Study - Atascadero USD GO Reauthorization

Bond Program Stalled Due to Prop 39 Tax Rate Limits and Declining Assessed Value

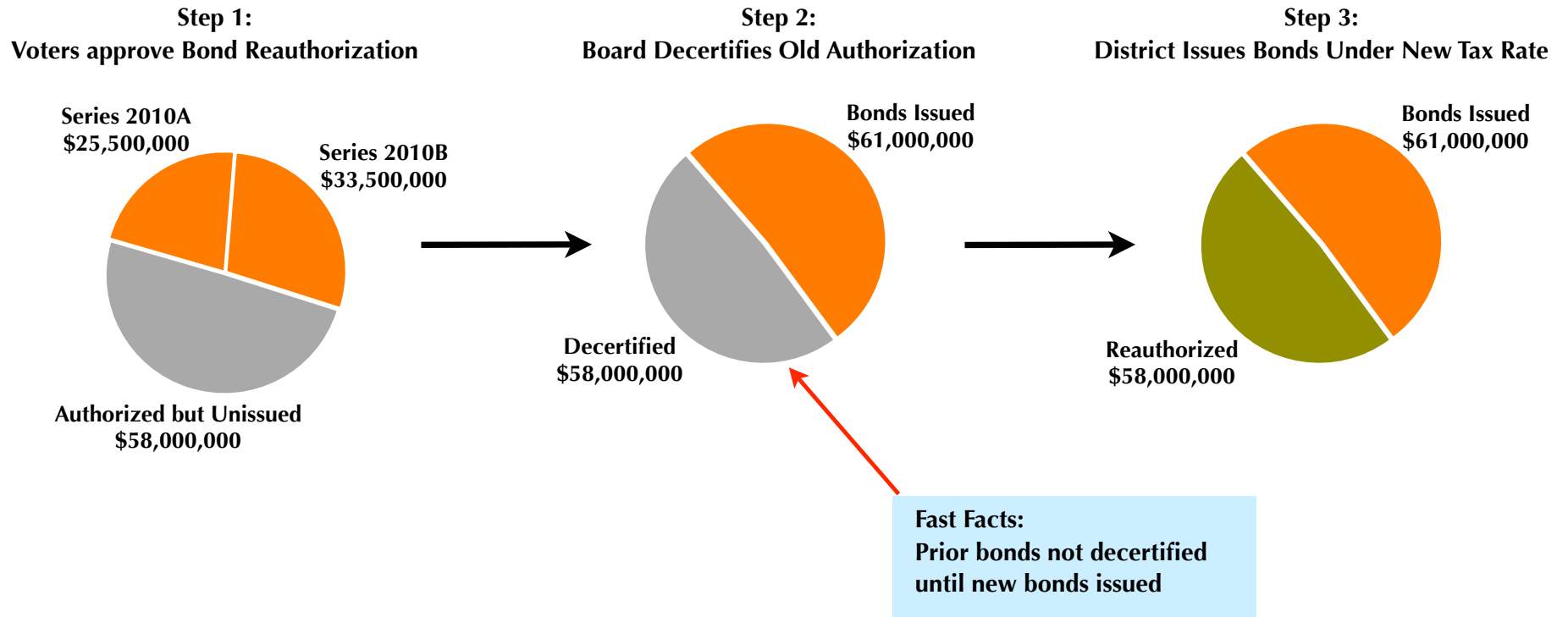
Projected Debt Service: w/ Delay Until 2030



Series	Year Issued/to be issued	Principal	Interest	Total	Debt Service Ratio
A	2011	\$25.50	\$23.19	\$48.69	1.91
B	2014	\$33.50	\$36.90	\$70.40	2.10
C	2030	\$58.00	\$86.80	\$144.80	2.50
Total		\$117.00	\$146.89	\$263.89	2.26
Authorized but Unissued Bonds		\$0.00			
Total Measure I-10		\$117.00			

CSBA/DS&C: Case Study - Atascadero USD GO Reauthorization Bonds®

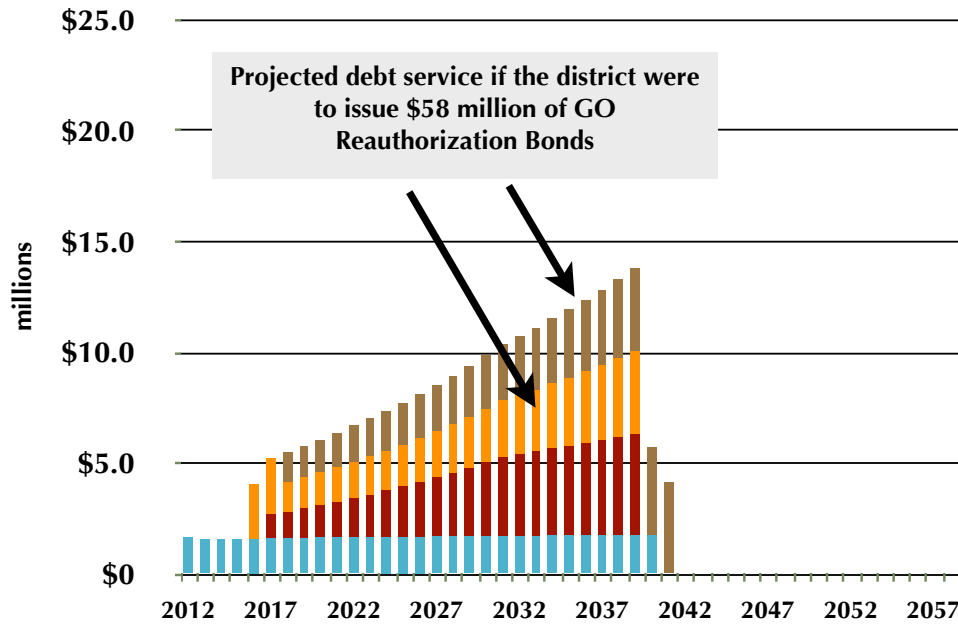
GO Reauthorization Bonds® Do Not Increase Total Amount of Approved Debt



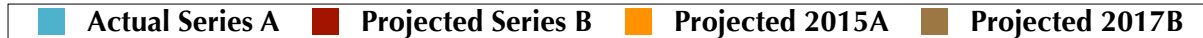
CSBA/DS&C: Case Study - Atascadero USD GO Reauthorization

GO Reauthorization Bonds® Allow Immediate Access to Authorized Bonds

Projected Debt Service: w/ Reauthorization



Atascadero USD: Project Measure I-10 Bond Sales					
Series	Year Issued/to be issued	Principal	Interest	Total	Debt Service Ratio
A	2011	\$25.50	\$23.19	\$48.69	1.91
B	2014	\$33.50	\$36.90	\$70.40	2.10
2015A	2015	\$28.70	\$28.04	\$56.74	1.98
2017B	2017	\$29.30	\$30.50	\$59.80	2.04
Total		\$117.00	\$118.63	\$235.63	2.01
Authorized but Unissued Bonds		\$0.00			
Total Measure I-10		\$117.00			



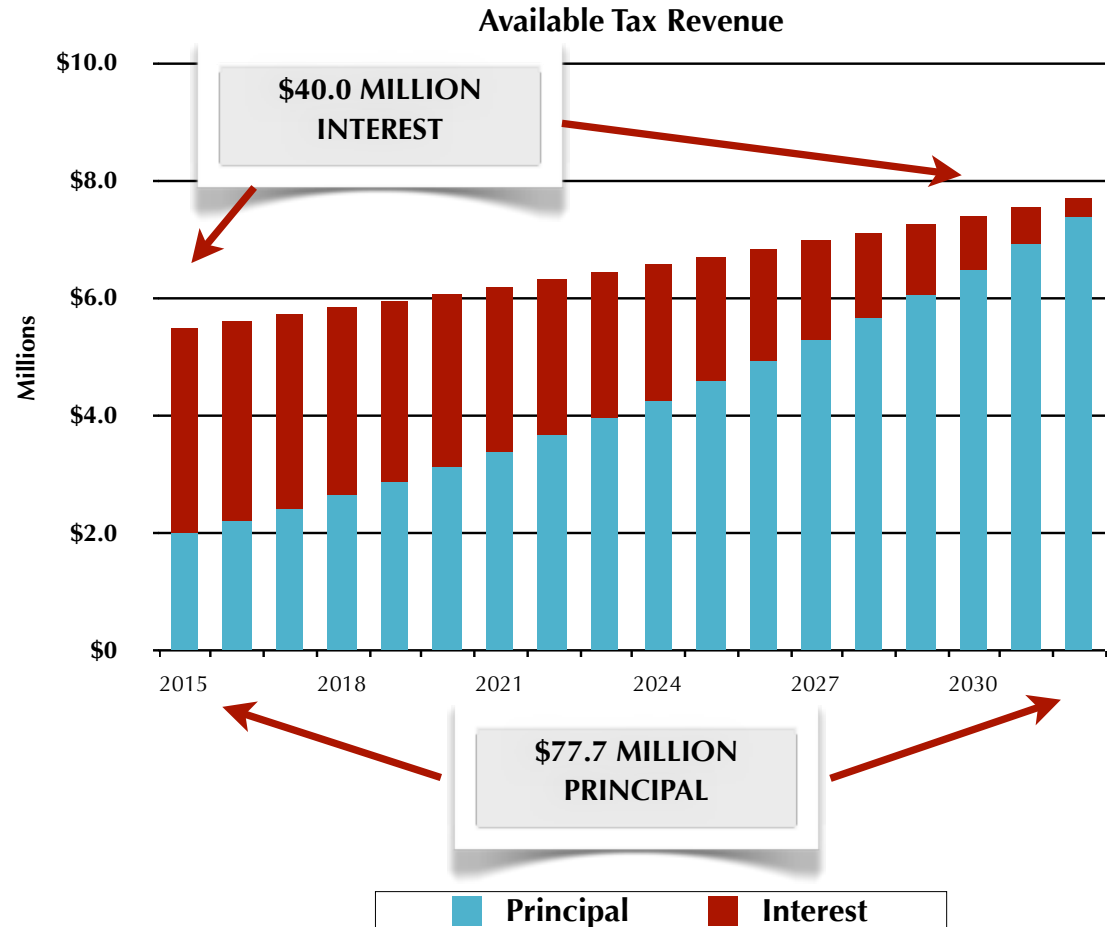
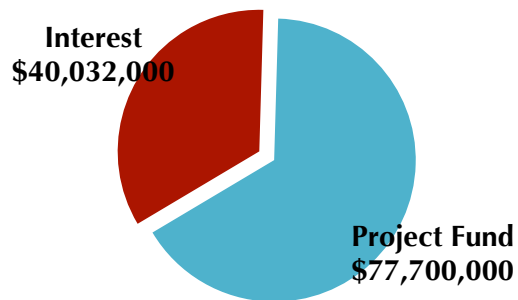
CSBA/DS&C: Case Study - East Side UHSD Ed-Tech Bond®

Conventional GOs Not Designed for Tech Funding

Assumptions:

- AV: \$59.9 billion
- \$9/\$100,000 tax rate
- 2% AV growth per year
- Term: 18 years
- Produces \$117.7 million in revenue
- \$77.7 million bond @ 4.5%

Conventional Financing

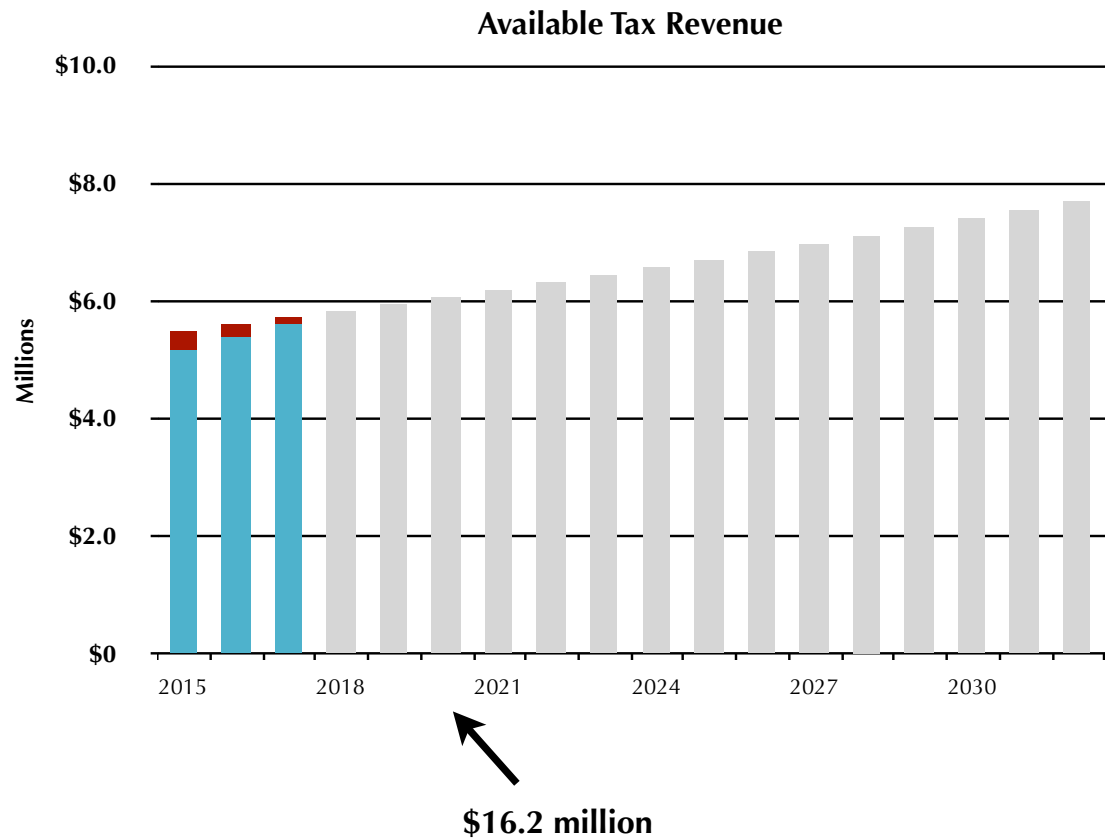


CSBA/DS&C: Case Study - East Side UHSD Ed-Tech Bond®

Ed-Tech Bonds™ Amortization Matches Technology Useful Life

Assumptions:

- AV: \$59.9 billion
- \$9/\$100,000 tax rate
- 2% AV growth per year
- Term: 18 years

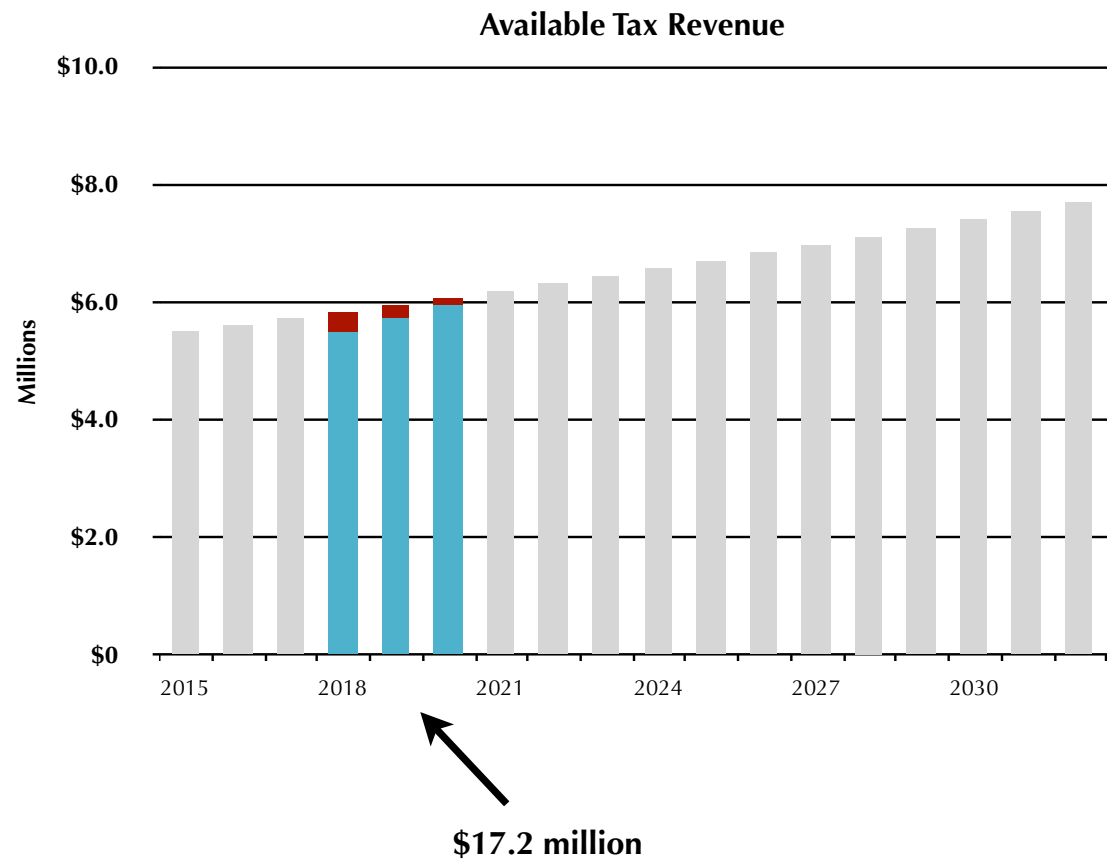


CSBA/DS&C: Case Study - East Side UHSD Ed-Tech Bond®

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- Current AV: \$63.9 billion
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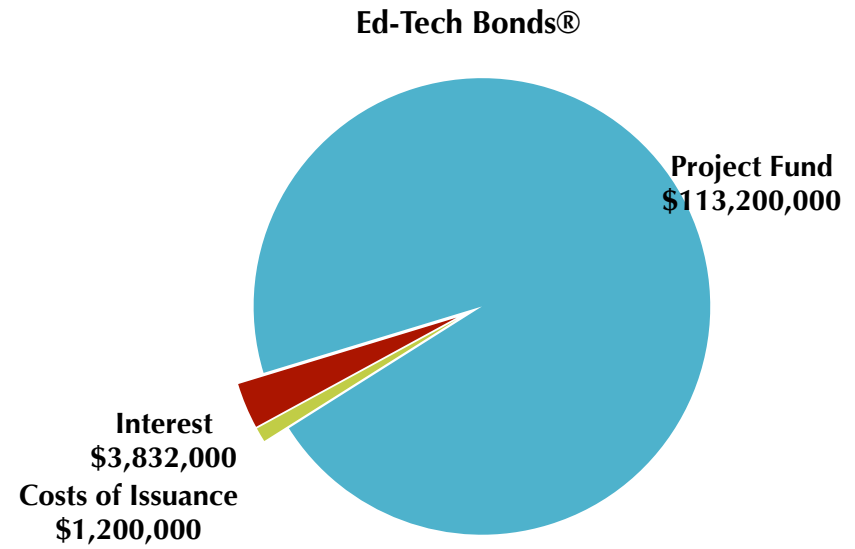
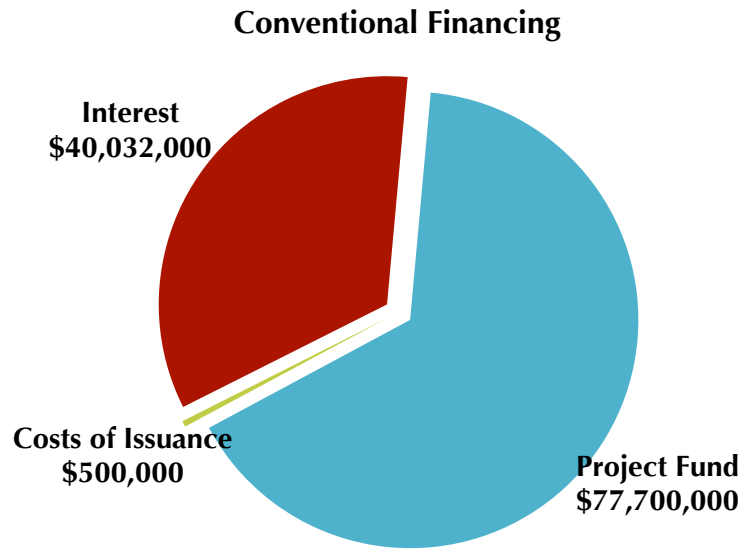
CSBA/DS&C: Case Study - East Side UHSD Ed-Tech Bond®

East Side Union High School District General Obligation Bonds Tax Rate Assumptions

Estimated Issue & Issue Date	Assumed Interest Rate	Assumed Term	Amount
Series A FYE 2015	2.00%	3 years	\$16,200,000
Series B FYE 2018	2.00%	3 years	\$17,200,000
Series C FYE 2021	2.00%	3 years	\$18,200,000
Series D FYE 2024	2.00%	3 years	\$19,300,000
Series E FYE 2027	2.00%	3 years	\$20,500,000
Series F FYE 2030	2.00%	3 years	\$21,800,000
Total Authorized			\$113,200,000
Total Assessed Valuation FY 2013-14			\$59,895,428,246
Assessed Valuation Growth Projections			
Fiscal year 2015 and after			2.00%
Estimated Average Cost Per Year on Assessed Valuation		Dollar Cost Per \$100 A.V.	Dollar Cost Per \$100,000 A.V.
First Year Tax Rate (FY 2015-16)		\$0.00900	\$9.00
Highest Year Tax Rate		\$0.00900	\$9.00
Tax Rate 1st Year After Last Series (FY 2030-31)		\$0.00900	\$9.00
Average Tax Rate		\$0.00900	\$9.00

CSBA/DS&C: Case Study - East Side UHSD Ed-Tech Bond®

Ed-Tech Bonds® Eliminate Nearly All Borrowing Costs



CSBA/DS&C: Case Study - East Side UHSD Ed-Tech Bond®

Devices and Technology Systems

- Computers, computer tablets and peripheral hardware
- Classroom technology tools
- Smart boards
- Document cameras
- Wireless microphones
- Printers, copiers and scanners
- Teacher-parent communication systems
- Data backup systems
- Classroom and district-wide security system hardware
- Technology equipment for use in science labs

Software

- Educational software
- Student performance assessment software
- Telecommunications software
- Web site development and maintenance
- Vocational education training software
- Disaster recovery hardware and software
- Classroom and district-wide security software
- Document retention software
- Software related to the overall instructional services, business services, and human relation services of the District
- Remote learning software

Infrastructure

- Capital technology projects including but not limited to the wiring of data centers, classrooms and school facilities
- Computer and technology wiring, servers, routers, switches and other information devices
- District-wide wireless access infrastructure.

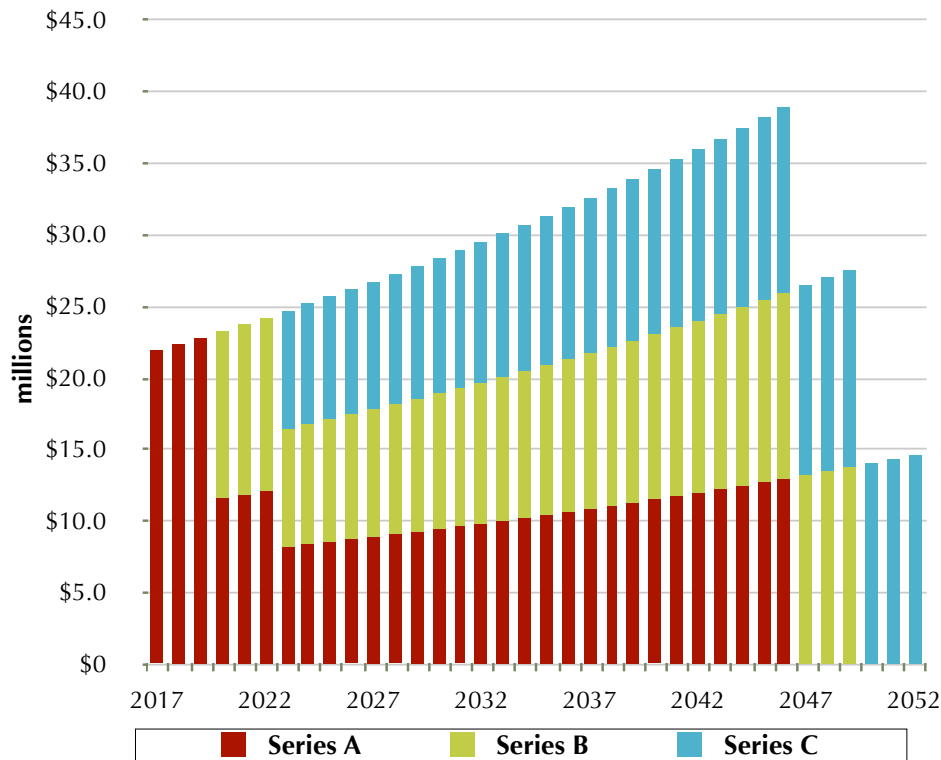
Implementation

- Installation and upgrading of various technology systems
- Costs of providing training related to the use and implementation of technology projects
- Future technology projects as set forth in the District's Board approved technology plan

CSBA/DS&C: Case Study - Kern CCD GO Flex-Bonds™

Conventional Bonds Require Taxpayer Payments for 30+ Years

Debt Service/Top Tax Rate: \$25



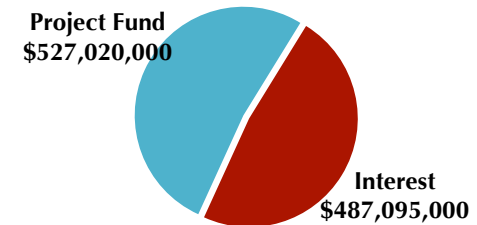
Assumptions:

- Current AV = \$86.0 billion*
- AV growth: 2.00%
- Series of bonds: 3
- Term of each bond series: 30 years
- Interest rate: 4.5%/4.75%/5.0%

*Does not include Mono County

Alternative A: Conventional				
	Year	Principal	Interest	Total
Series A	2017	\$201,570,000	\$151,740,000	\$353,310,000
Series B	2020	\$165,985,000	\$160,720,000	\$326,705,000
Series C	2023	\$159,465,000	\$174,635,000	\$334,100,000
Total		\$527,020,000	\$487,095,000	\$1,014,115,000

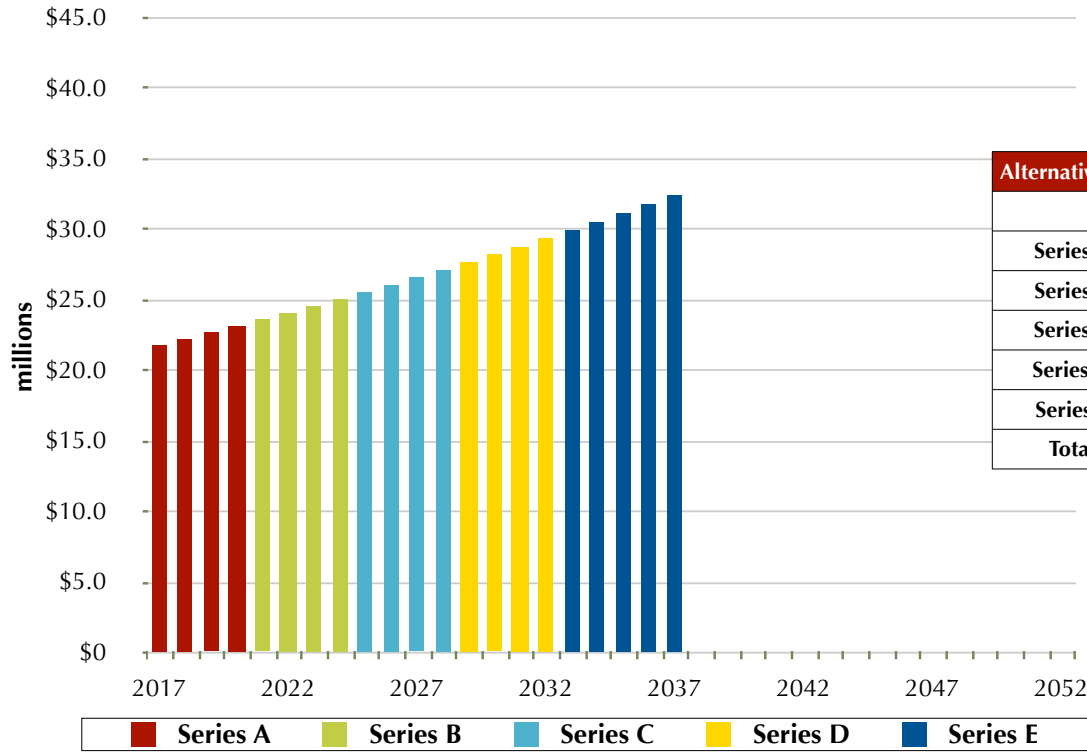
Conventional Bonds



CSBA/DS&C: Case Study - Kern CCD GO Flex-Bonds™

G.O. Flex-Bonds™ Reduce Taxpayer Obligations

Debt Service/Top Tax Rate: \$24.87

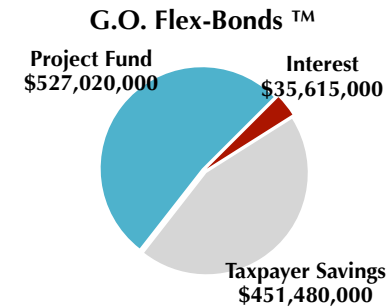


Assumptions:

- Current AV = \$86.0 billion*
- AV growth: 2.00%
- Series of bonds: 5
- Term of each bond series: 4 to 5 years
- Interest rate: 2.5%

*Does not include Mono County

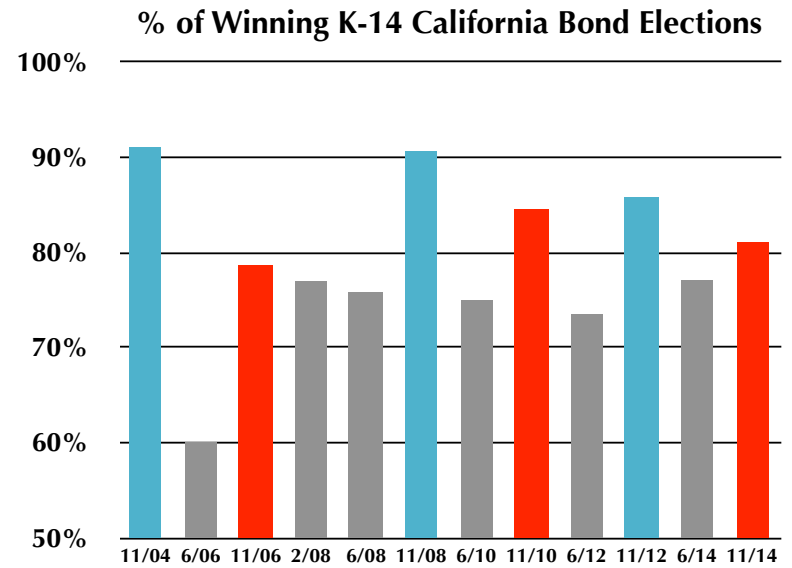
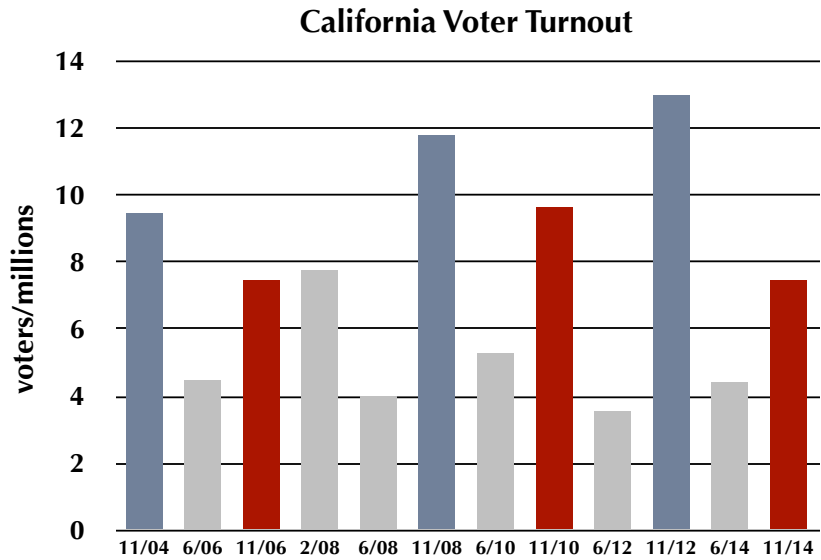
Alternative B: G.O. Flex-Bonds™				
	Year	Principal	Interest	Total
Series A	2017	\$84,535,000	\$5,405,000	\$89,940,000
Series B	2021	\$91,505,000	\$5,850,000	\$97,355,000
Series C	2025	\$99,050,000	\$6,330,000	\$105,380,000
Series D	2029	\$107,215,000	\$6,850,000	\$114,065,000
Series E	2033	\$144,715,000	\$11,180,000	\$155,895,000
Total		\$527,020,000	\$35,615,000	\$562,635,000



Section Three: **Putting a Bond on the Ballot**

CSBA/DS&C: Putting a Bond on the Ballot

Not All Elections Are Created Equal



Presidential
 Gubernatorial
 Primary

CSBA/DS&C: **Putting a Bond on the Ballot**

Steps in the Process

- A. **VOTER RESEARCH**
- B. **DRAFTING THE DISTRICT RESOLUTION**
- C. **DRAFTING THE BALLOT LANGUAGE AND PROJECT LIST**
- D. **PREPARING THE TAX RATE STATEMENT**
 - **Beware of political tax rate caps**
- E. **PASSAGE OF THE RESOLUTION**
- F. **FILING WITH THE COUNTY**
- G. **DRAFTING THE BALLOT ARGUMENT/REBUTTAL**
 - **Who should sign?**
- H. **LEGAL RESTRICTIONS/CAMPAIGN DO'S AND DON'TS**