

California Debt and
Investment Advisory Commission



ABCs of School Debt Financing

The Mechanics of a General Obligation Bond

April 9, 2010



presented by

Adam Bauer

Fieldman, Rolapp & Associates

949.295.5735

abauer@fieldman.com

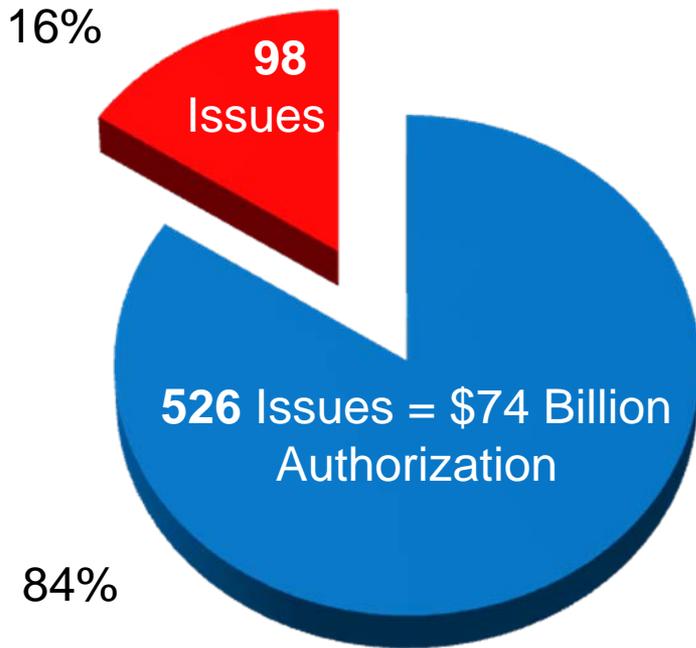


Historical Results

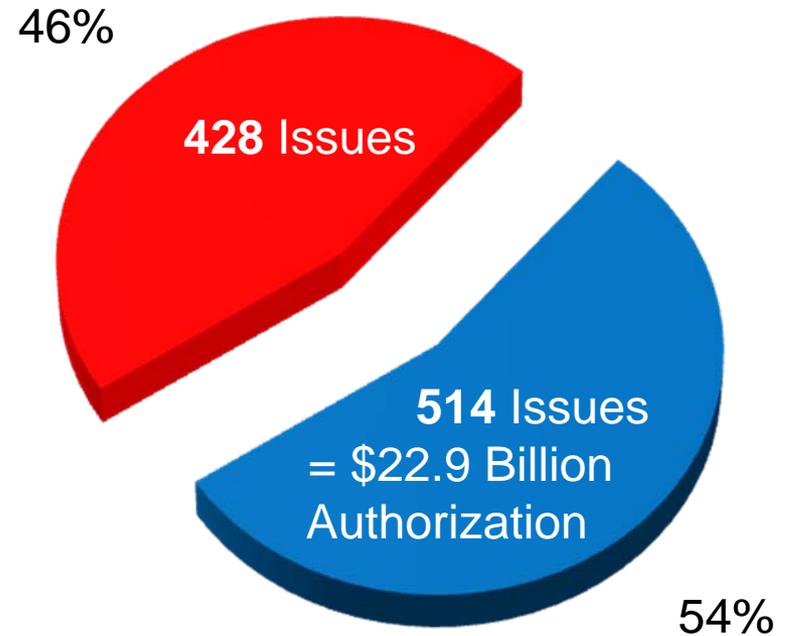


School District GO Election Results: January 1986 – November 2008

Prop. 39 ⁽¹⁾



Prop. 46



⁽¹⁾ Proposition 39 elections commenced in Spring 2001

Source: School Services of California

 Pass  Fail

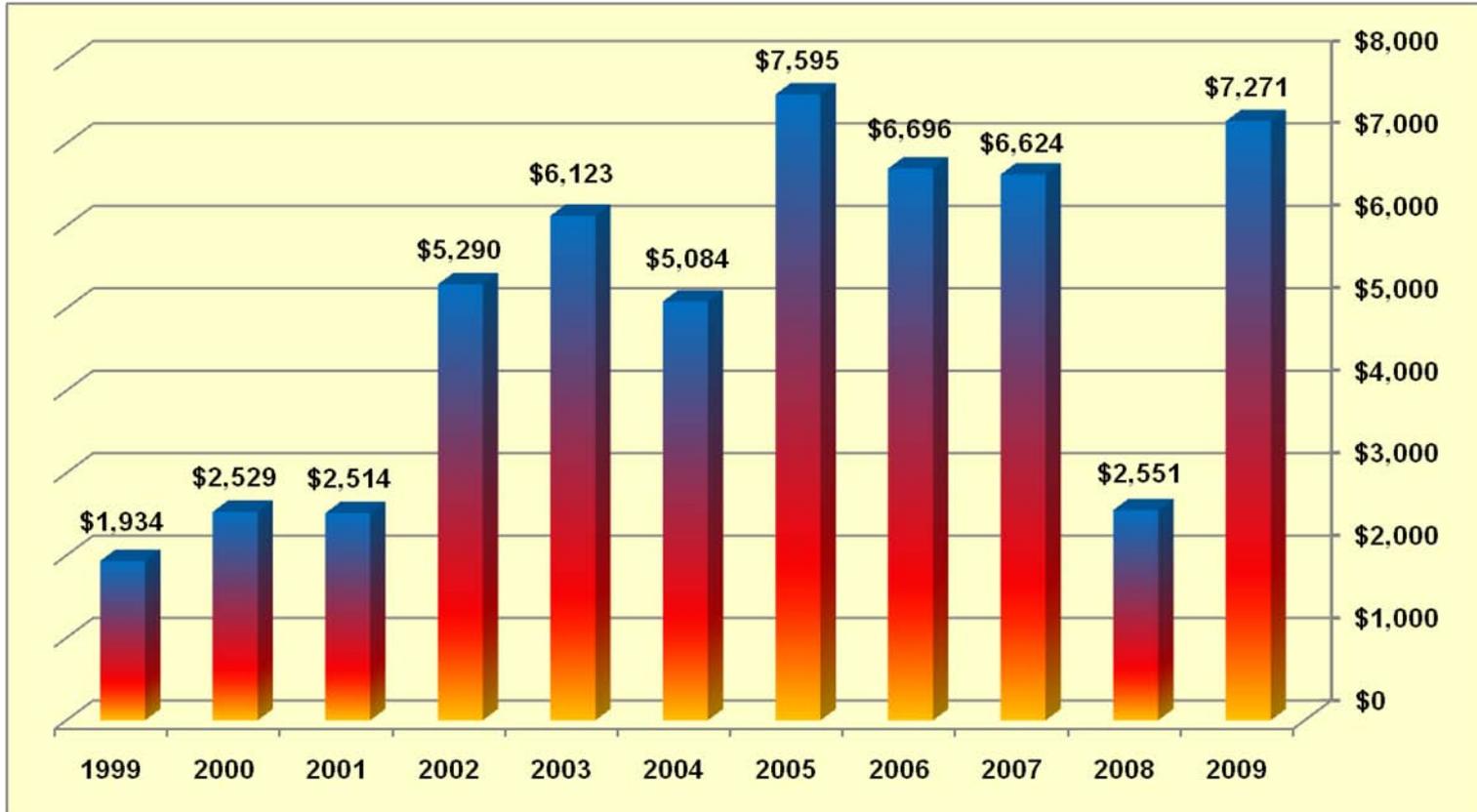


Annual K-12 GO Bond Volume



1999 - 2009

\$ Millions





Steps To Issuance



- 1. School District decides to finance a project(s)**
2. Select the Finance Team
3. Review revenue streams
4. Determine debt structure
5. Prepare for election
6. Election
7. Financing documents prepared
8. Credit Presentation
9. Board Approval
10. Print the Preliminary Official Statement
11. Bond Sale
12. Close





General Obligation Bonds



- Secured by an *ad valorem* tax on all taxable property within the School District's boundary
- *Ad valorem* taxes create a new revenue stream for the School District
- Requires voter approval of tax
- Unlimited ability to raise taxes provides investors with greatest security and lowest borrowing cost
- School Facilities Improvement District (SFID) can be formed by School Districts to tax only a portion of their territory

Proposition 46

- ✓ Separate Account/Annual Report
- ✓ No maximum tax rate

Proposition 39

- ✓ Separate Account/Annual Report
- ✓ List of specific school facility projects to be funded
- ✓ Citizens Oversight Committee (COC)
- ✓ Performance and Financial Audits

Tax rate as a result of any single election must be projected to be no more than (per \$100,000 of assessed value):

- ✓ \$30 for elementary and high school districts
- ✓ \$60 for unified school districts
- ✓ \$25 for community college districts



Sample Property Tax Bill

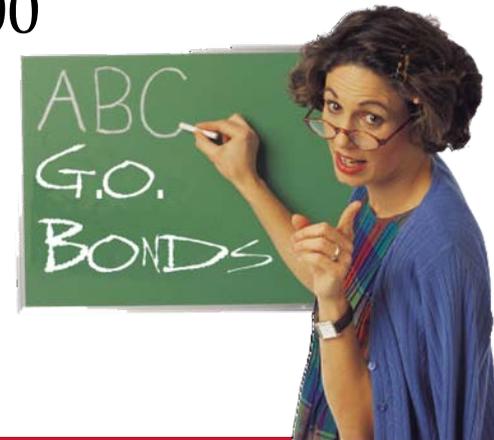


Sample Property Tax Bill		
	Percent of Total AV	Projected Amount
ASSESSED VALUATION AND PROPERTY TAXES		
Estimated Sales Price	\$280,000	
Homeowner's Exemption	(7,000)	
Assessed Value	\$273,000	
AD VALOREM PROPERTY TAXES		
General Purpose	1.00000%	2,730
Ad Valorem Tax		
Unified School District G.O. Bond	0.06000%	164
Water District	0.00700%	19
Total Ad Valorem Property Taxes and Overrides	1.06700%	\$2,913
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES		
Unified School District CFD 1	-	600
Municipal Water District Standby Charge	-	10
Metropolitan Water District Standby	-	7
City Landscaping Lighting Park	-	450
City CFD No. 2 (Police & Fire)	-	350
Recreation and Park District No. 3	-	30
Total Assessments and Parcel Charges		\$1,447
PROJECTED TOTAL PROPERTY TAXES		\$4,360

School District Debt Financing with General Obligation Bonds



- Bonding Capacity
 - ✓ Union School Districts – 1.25% of Assessed Value
 - ✓ Unified School Districts – 2.5% of Assessed Value
- Tax Rate Limitations
 - ✓ Union School Districts – \$30 per \$100,000
 - ✓ Unified School Districts – \$60 per \$100,000
- Requires Voter Approval
 - ✓ 55% Approval required for Full District



School District Debt Financing with General Obligation Bonds



- **Before** Election (at least 88 days before)
 - ✓ Projects to be financed must be stated
 - ✓ School Board must declare resolution for election
 - ✓ Tax rate must be estimated and bond amount named
- **After** Election
 - ✓ Citizens Oversight Committee appointed
 - ✓ Annual audits require
- **Use of Proceeds**
 - ✓ 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



Authorization a Function of Several Variables



$$\text{Tax Rate} = \frac{\text{Annual Debt Service}}{\text{Assessed Valuation}}$$

- Therefore, bonding capacity at a given tax rate is a function of the following variables:
 - ✓ Beginning Assessed Valuation of Taxable Property
 - ✓ Assumed Growth Rate of Assessed Valuation
 - ✓ Number of Years Tax to Levied
 - ✓ Assumed Interest Rates on Bonds
 - ✓ Timing and Amount of Individual Bond Sales
 - ✓ Shape of Debt Service Profile



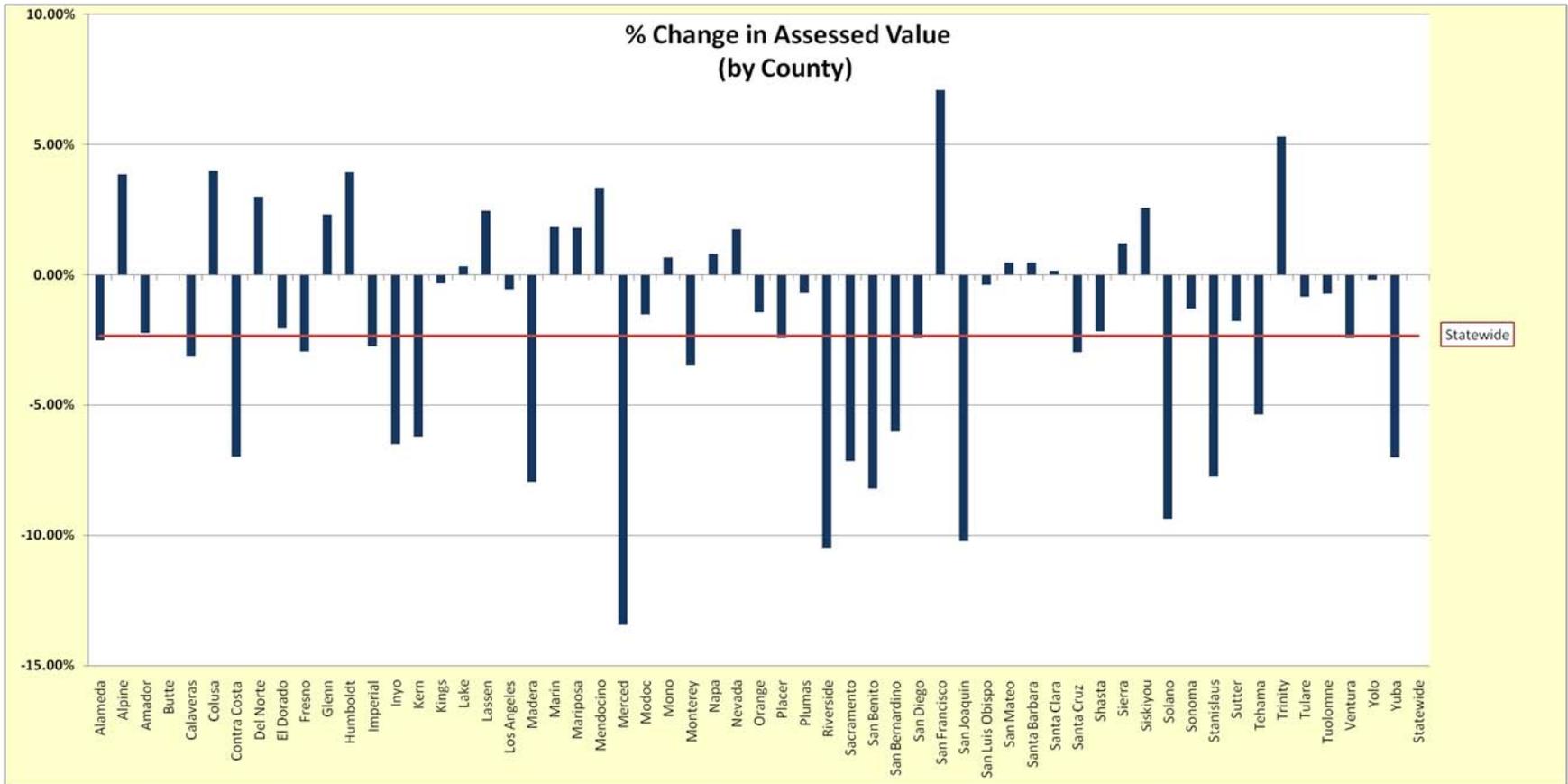
Assessed Value Trends



- The State of California had seen double-digit growth in assessed valuation for many local governments, including school districts, from 2003-2007
- Recently, this trend has slowed or reduced to high single digit and double digit reductions in assessed valuations in 2008 and 2009
- **What does this mean for K-12 school districts?**
 - Lower assessed valuations mean lower 1.25% or 2.50% statutory bonding capacity
 - Limited or no access to proposition approved Proposition 39 \$30 or \$60 per \$100,000 tax rate limitations GO Bond elections due to assessed valuation reductions
 - Political implications due to lack of access to funds may lead to other more expensive financing options for K-12 school districts

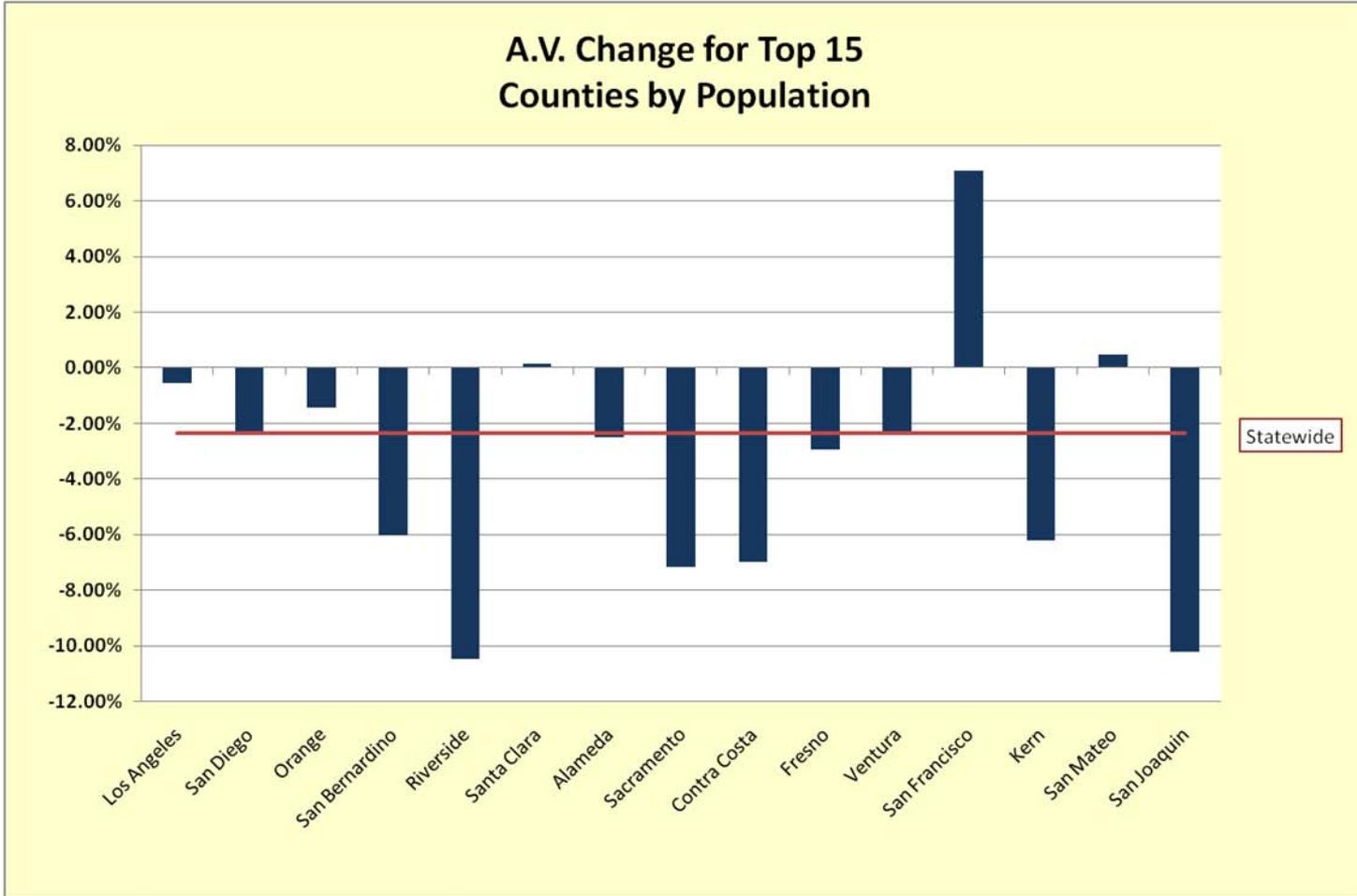


A s s e s s e d V a l u e T r e n d s



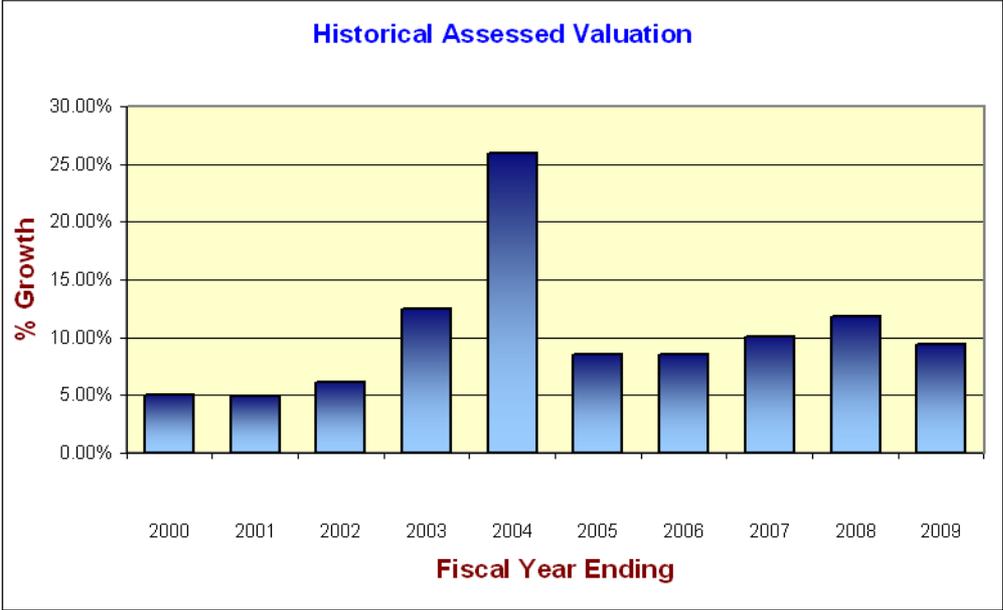
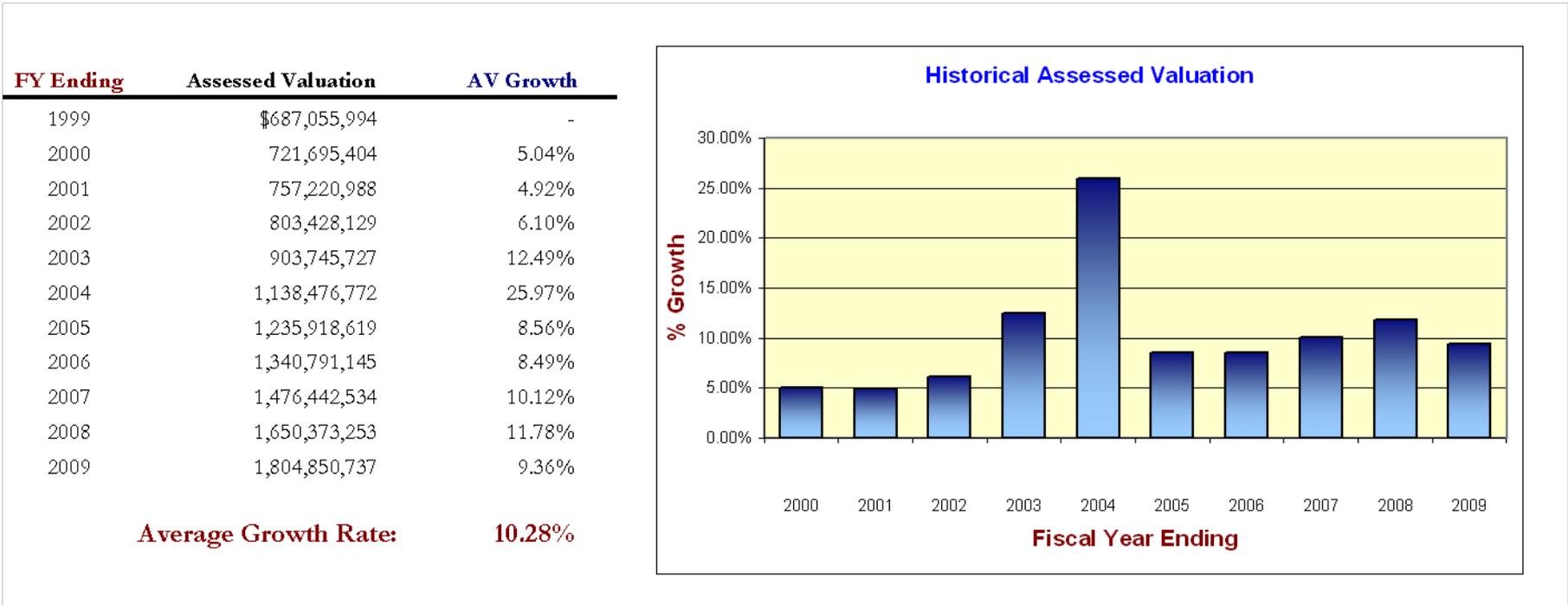


A s s e s s e d V a l u e T r e n d s





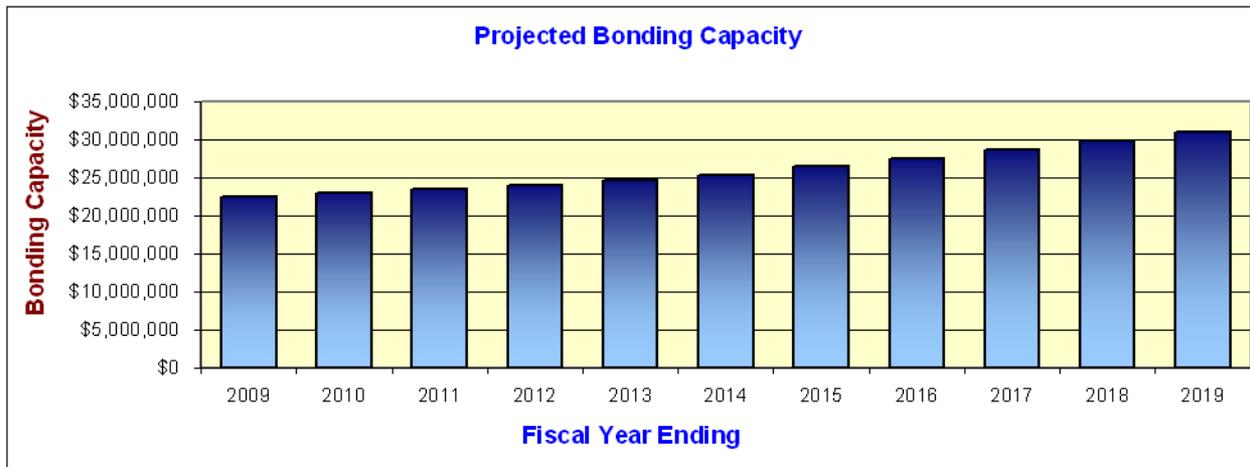
History of Assessed Valuation



Statutory Bonding Capacity



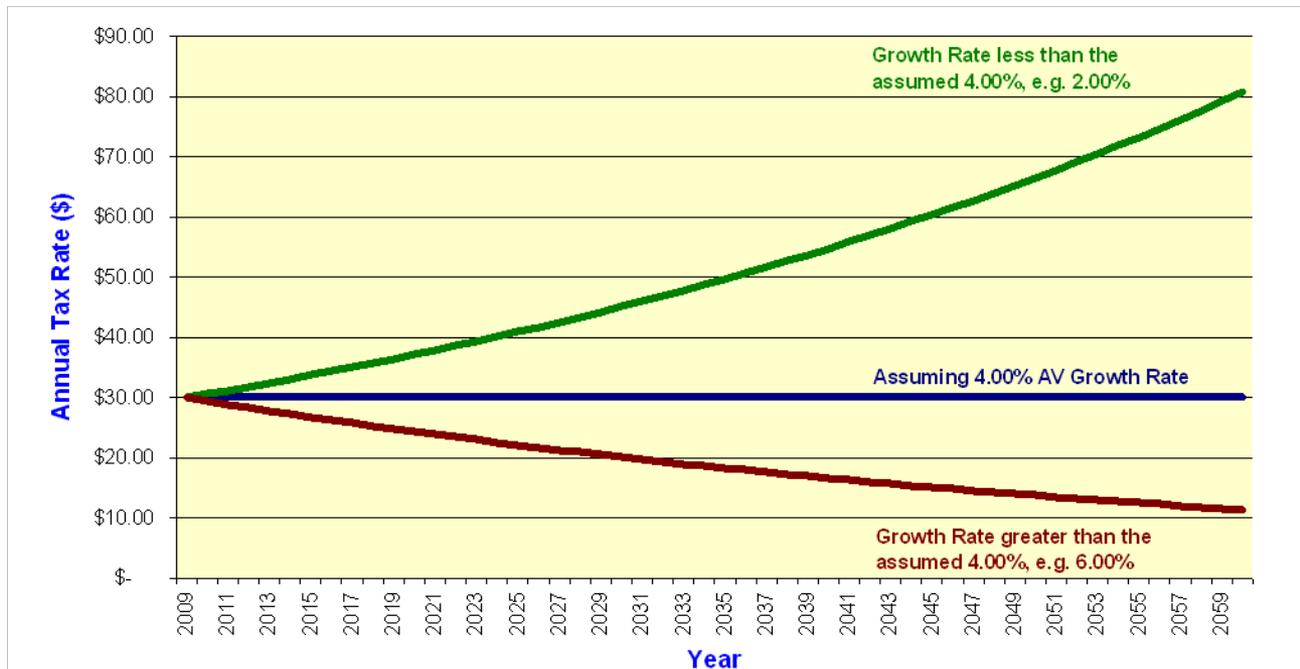
FY Ending	Assessed Valuation ⁽¹⁾	Assumed % of AV Growth ⁽²⁾	Bonding Capacity
2009	\$1,804,850,737	-	\$22,560,634
2010	1,840,947,752	2.00%	23,011,847
2011	1,877,766,707	2.00%	23,472,084
2012	1,915,322,041	2.00%	23,941,526
2013	1,972,781,702	3.00%	24,659,771
2014	2,031,965,153	3.00%	25,399,564
2015	2,113,243,759	4.00%	26,415,547
2016	2,197,773,510	4.00%	27,472,169
2017	2,285,684,450	4.00%	28,571,056
2018	2,377,111,828	4.00%	29,713,898
2019	2,472,196,301	4.00%	30,902,454



(1) Estimates based on Historical Assessed Value Growth.

(2) Estimates must be reviewed and discussed with School District.

Impact of AV Growth Rate on Tax Rates



	Year 1	Year 5	Year 10	Year 25	Year 50
Tax Rate if AV Grows at Assumed Rate (e.g., 4.00%)	\$ 30.00	\$ 30.00	\$ 30.00	\$ 30.00	\$ 30.00
Tax Rate if AV Grows at Slower Than Assumed Rate (e.g., 2.00%)	\$ 33.71	\$ 37.14	\$ 37.14	\$ 49.70	\$ 80.76
Tax Rate if AV Grows at Faster Than Assumed Rate (e.g., 6.00%)	\$ 26.76	\$ 24.33	\$ 24.33	\$ 18.28	\$ 11.36

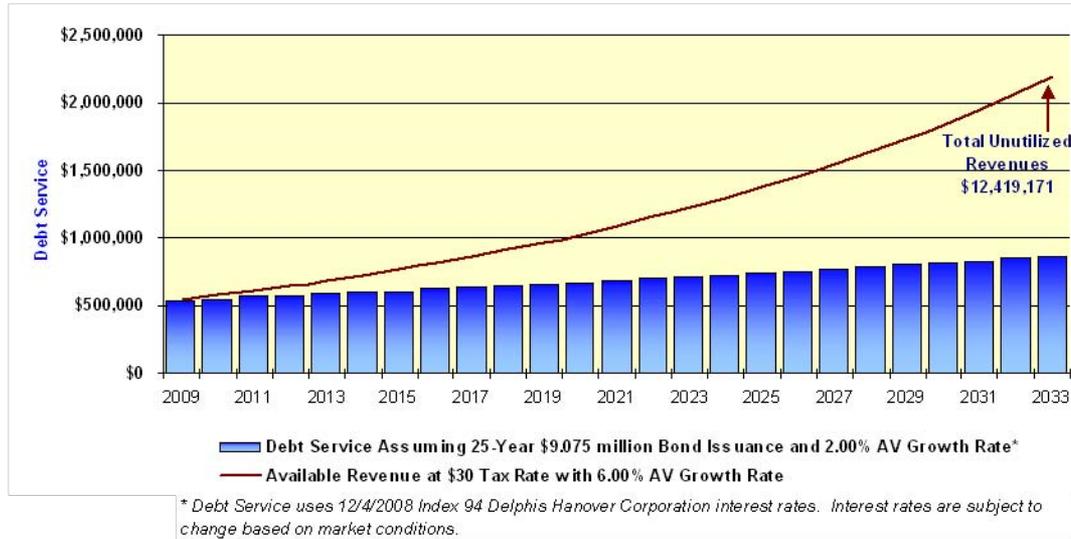


Impact of Assessed Value Growth Rates on Projected Tax Revenue



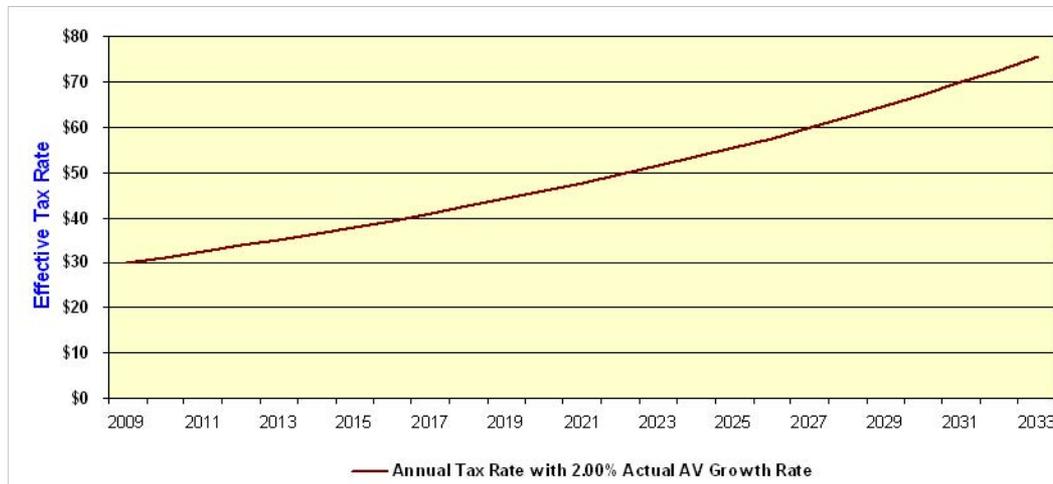
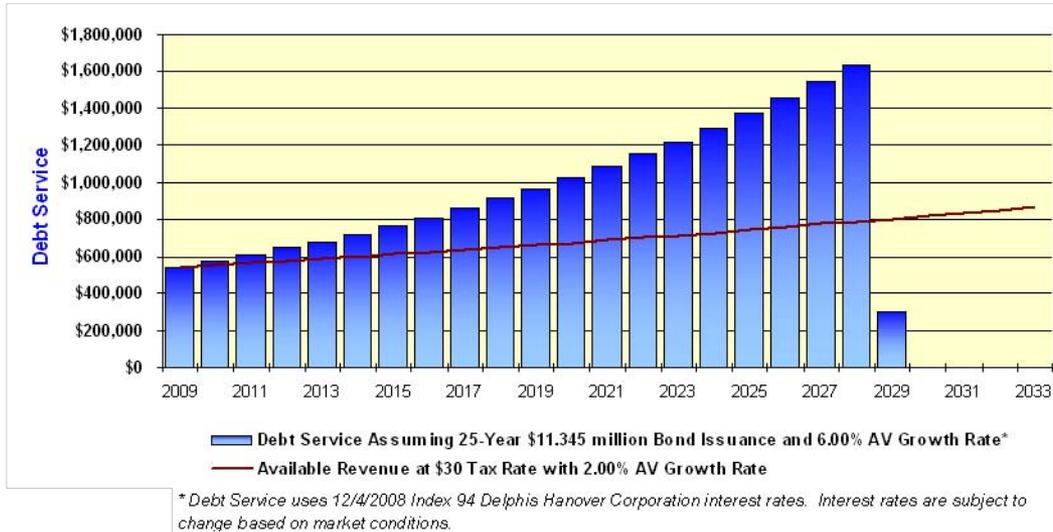


Conservative Planning





Aggressive Planning





BANs



- Bond Anticipation Notes can be used to give districts access to cash sooner than bonds
- Notes and renewals thereof must be payable not more than five years from the date of the original issuance of the first Notes
- Total amount of Notes or renewals thereof issued and outstanding may not exceed the total amount of unsold (authorized) bonds
- The proceeds from the sale of the Notes must be used only for authorized purposes of the bonds or to repay outstanding notes previously issued



Questions & Discussion

