

**California Debt and Investment Advisory Commission
and California Association of School Business Officials**

The ABC's of School Debt Financing

Debt Financing Mechanisms – Part 1

Prepared by Dawn Vincent, January 2008



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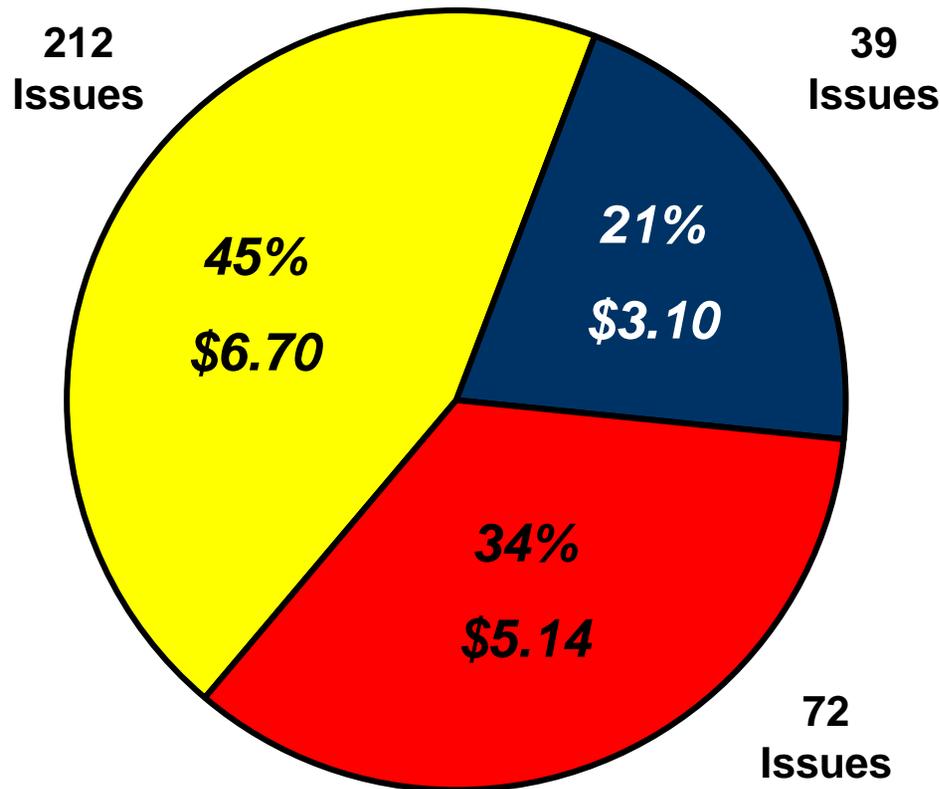
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California's 2006 GO Bond Issues

(in \$Billions)



Total Amount: \$14.9 Billion

Total Transactions: 323

K-12 School Facilities

Community College Facilities

General Government (1)

(1)Includes: Flood Control & Storm Drainage, Healthcare Facilities, Multifamily Housing, Multiple Capital Improvements, Correctional Facilities, Parks, Public Building, Public Transit, Seismic Safety Improvements, Wastewater & Water.

Source: California Debt and Investment Advisory Commission (CDIAC)

General Obligation Bonds

A method of financing public school facilities

Authorized by State law

Bonds secured by *Ad Valorem (of value)* taxes

- ❖ **Annual tax amounts determined based on property values (Proposition 13)**

Bond Approval System

Two methods available under State law

- ❖ **Proposition 46 (1986)**
Requires 2/3rds favorable vote
- ❖ **Proposition 39 (2000)**
Requires 55% favorable vote

(Can only use one method at a time)

Proposition 39

Approved by Voters on November 7, 2000

Applies to:

- ❖ **School Districts**
- ❖ **Community College Districts**
- ❖ **County Offices of Education**

Differences Between 2/3-Vote and 55%-Vote Elections

Types of Eligible Facilities

Maximum Tax Rates

Election Dates Available

**Accountability Measures
(Government & Audit)**

Types of Facilities

2/3 Vote

- ❖ Real property only (land, buildings, permanent improvements)

55% Vote – All of the above – *Plus* –

- ❖ All improvements, including furnishings and fixtures. Also includes leases.

Can not fund Teacher/Administrator Salaries or Operating Expenses

Maximum Annual Tax Rates

2/3 Vote: No tax rate limitations

55% Vote:

- ❖ **\$25 per \$100,000 of assessed value for community college districts**
- ❖ **\$30 per \$100,000 of assessed value for elementary and high school districts**
- ❖ **\$60 per \$100,000 of assessed value for unified school districts**

Election Dates

2/3 Vote

- ❖ **Any Tuesday, except within 45 days of a State-wide election**

55% Vote

- ❖ **March and November of even-numbered years**
- ❖ **Other dates eligible only if coincide with regularly-scheduled district-wide election**

Accountability Measures

2/3 Vote

- ❖ None required

55% Vote

- ❖ Citizens oversight committee (COC)
- ❖ Performance and financial audits

Bonding Capacity and Tax Rate Limitations

- ❖ **Statutory Bonding Capacity Limits Amount of Bonds Sold in Fiscal Year**
- ❖ **Proposition 39 Constrains Voter-Approved Bond Amount**

Statutory Bonding Capacity

- ❖ **Limits amount of bonds issued in any fiscal year**
- ❖ **1.25% of AV for elementary and high school districts**
- ❖ **2.50% of AV for unified school districts and community college districts**

Proposition 39 Constrains Voter-Approved Bond Amount

- ❖ **Annual limits to tax rates reduce effective bonding capacity by about 50%**
- ❖ **Significant constraint for school districts with small tax base**



Length of Bond Repayment for General Obligation Bonds



Education Code:

25 years most common repayment period

- ❖ Allows level or escalating bond payments

Government Code:

30- to 40-year repayment periods

- ❖ Level bond payments required

1- to 5-year repayment periods via Bond Anticipation Notes (BANs)

- ❖ BANs are issued as a form of short term borrowings

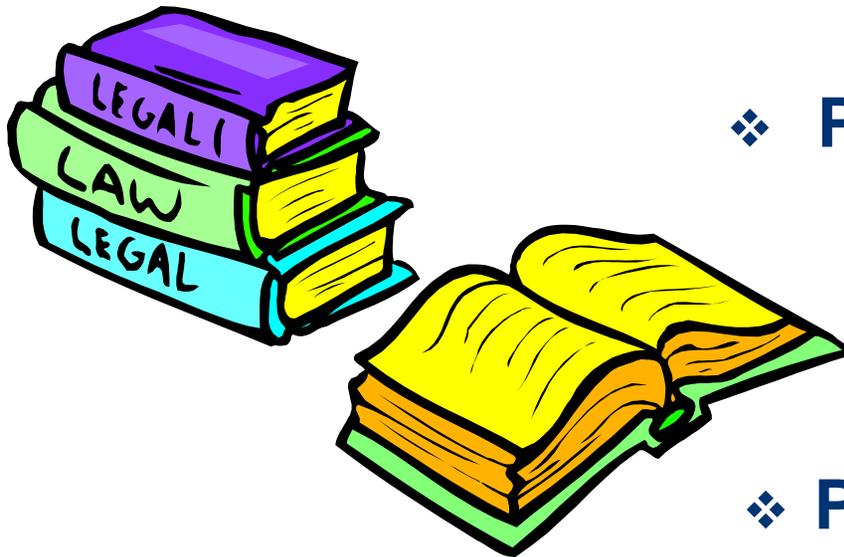
Number and Frequency of Bond Issues

- ❖ **Effects on tax rate and bond amount**
- ❖ **Importance of initial bond issue**
- ❖ **Flexibility to account for ongoing adjustments**
 - **Project timing**
 - **Assessed value growth**
 - **Bond interest rates**

School Facilities Improvement Districts (SFIDs)

❖ Application - Limited Area of a School District

- Mello Roos
- Attendance Areas
- Geographic Territory



❖ Procedural Requirements

- County Approval
- SBOE & Tax Rate Area

❖ Prop 46 & Prop 39 eligible

Upcoming Proposition 39 Election Dates

❖ February 2008 – Special Statewide

❖ June 2008 – Primary Election

❖ November 2008 – General Election

❖ Other dates only if coincide with regularly scheduled district-wide election

- School Board election
- County election
- Special District election
- Community College election

Advantages and Disadvantages

ADVANTAGES

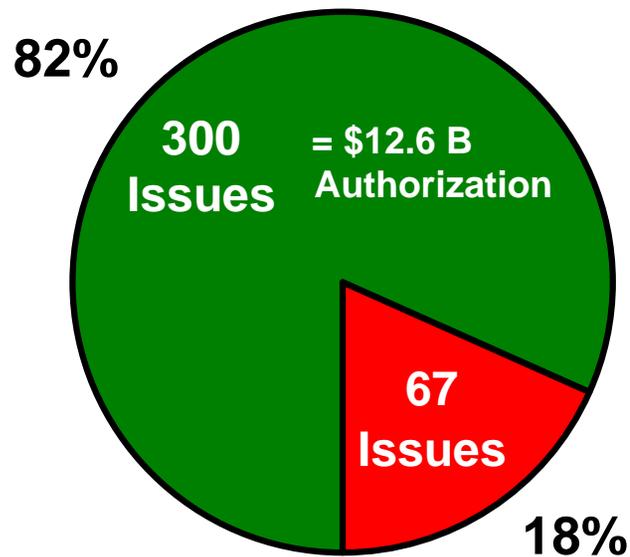
- > Generates additional revenue to pay debt service
- > Lower interest rate and costs of issuance because of strength of security and simplicity of structure
- > No need to issue more bonds to create a reserve fund
- > No need to issue more bonds to fund interest on the bonds during the project construction period

DISADVANTAGES

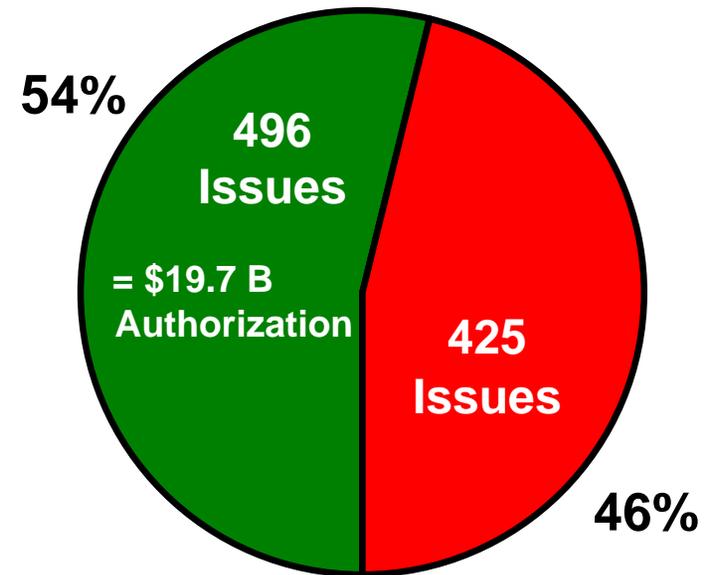
- > Voter approval required (2/3's or 55%)
- > Debt limit restrictions
- > Election requirements impose long delay between initiation of proceedings and school district's receipt of bond proceeds
- > Tax must be levied based on a uniform percentage of the assessed value of each parcel; no flexibility in establishing the tax formula

School District GO Election Results: January 1986 – November 2007

Prop. 39 (1)



Prop. 46



(1) Proposition 39 elections commenced in Spring 2001.

Source: School Services of California

 **PASS**

 **FAIL**

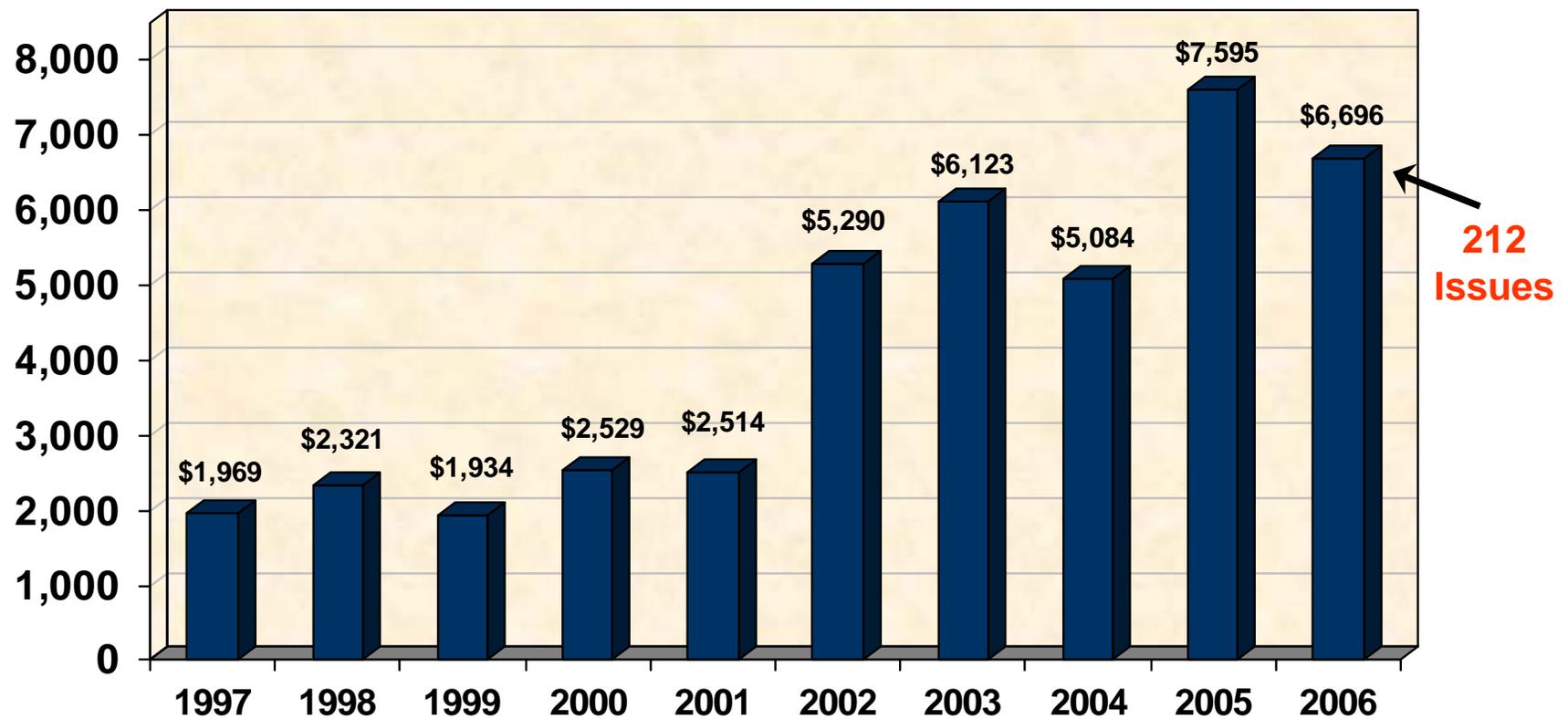
Annual K-12 GO Bond Volume

1997-2006

Total Amount: \$42 Billion

Total Transactions: 1,837

\$Millions



Source: California Debt and Investment Advisory Commission (CDIAC)

General Obligation Bonds

Legal Considerations

Presented by Robert J. Whalen



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General Obligation Election Documents

- ❖ Resolution Calling Election
 - Date of Election
 - Amount of authorization
 - Bond project list
 - Bond proposition
- ❖ Tax Rate Statement
 - Prepared by Financial Advisor
- ❖ Impartial Analysis
 - Prepared by Legal Counsel
- ❖ Resolution Certifying Results of Election
- ❖ Resolution Appointing Citizens' Oversight Committee
 - Proposition 39 Elections only
 - Within 60 days of Resolution Certifying Results
 - Minimum 7 members

General Obligation Election Documents

(continued)

- ❖ Resolution Requesting County to Issue
 - Financing Parameters
 - Approve Forms of Legal Documents
 - AB 1482 Compliance
 - ↳ Method of Sale & Reasons
 - ↳ Disclosure of Consultants
 - ↳ Estimated Costs of Issuance

- ❖ Resolution of Issuance
 - Principal Amounts and Maturity Dates
 - Interest Rates
 - Redemption Provisions
 - ↳ Optional Call
 - Amendment Procedures
 - Investment Alternatives

Rules for Bond Campaigns

- ❖ District MAY provide balanced, non-promotional information about bond measure
- ❖ Employees MAY campaign “For” or “Against” the bond measure during working hours
- ❖ District MAY NOT pressure employees to campaign for bond measure
- ❖ District MAY NOT use District funds, services, supplies or equipment to support or oppose a bond measure
 - Examples:
 - Fliers favoring bond measure may not be placed in District mail boxes
 - District may not use e-mail system to promote or oppose bond measure

Questions

