The ABC’s of School Debt Financing
Debt Financing Mechanisms – Part 1

Prepared by Dawn Vincent, January 2008
California’s 2006 GO Bond Issues

(in $Billions)

212 Issues

45% $6.70

39 Issues

21% $3.10

72 Issues

34% $5.14

Total Amount: $14.9 Billion
Total Transactions: 323

K-12 School Facilities

Community College Facilities

General Government (1)

Source: California Debt and Investment Advisory Commission (CDIAC)

(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.
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)
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)

- 82% 300 Issues = $12.6 B Authorization
- 18% 67 Issues

Prop. 46

- 54% 496 Issues = $19.7 B Authorization
- 46% 425 Issues


Source: School Services of California
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