

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](mailto:abauer@fieldman.com)**

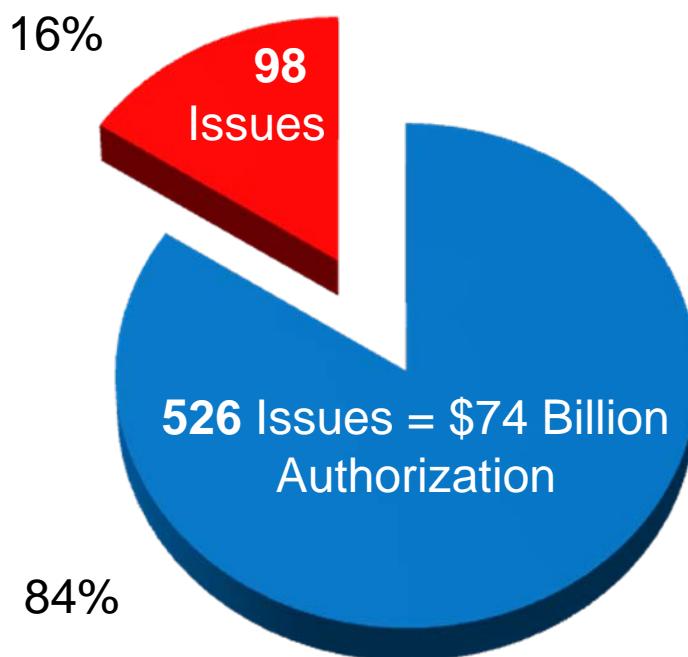


# Historical Results

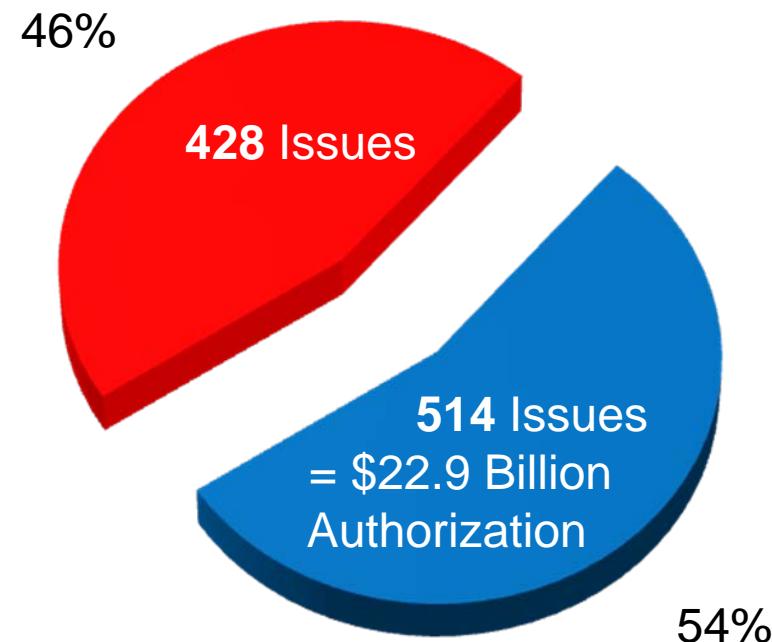


School District GO Election Results: January 1986 – November 2008

Prop. 39 <sup>(1)</sup>



Prop. 46



<sup>(1)</sup> Proposition 39 elections commenced in Spring 2001

Source: School Services of California



Pass



Fail

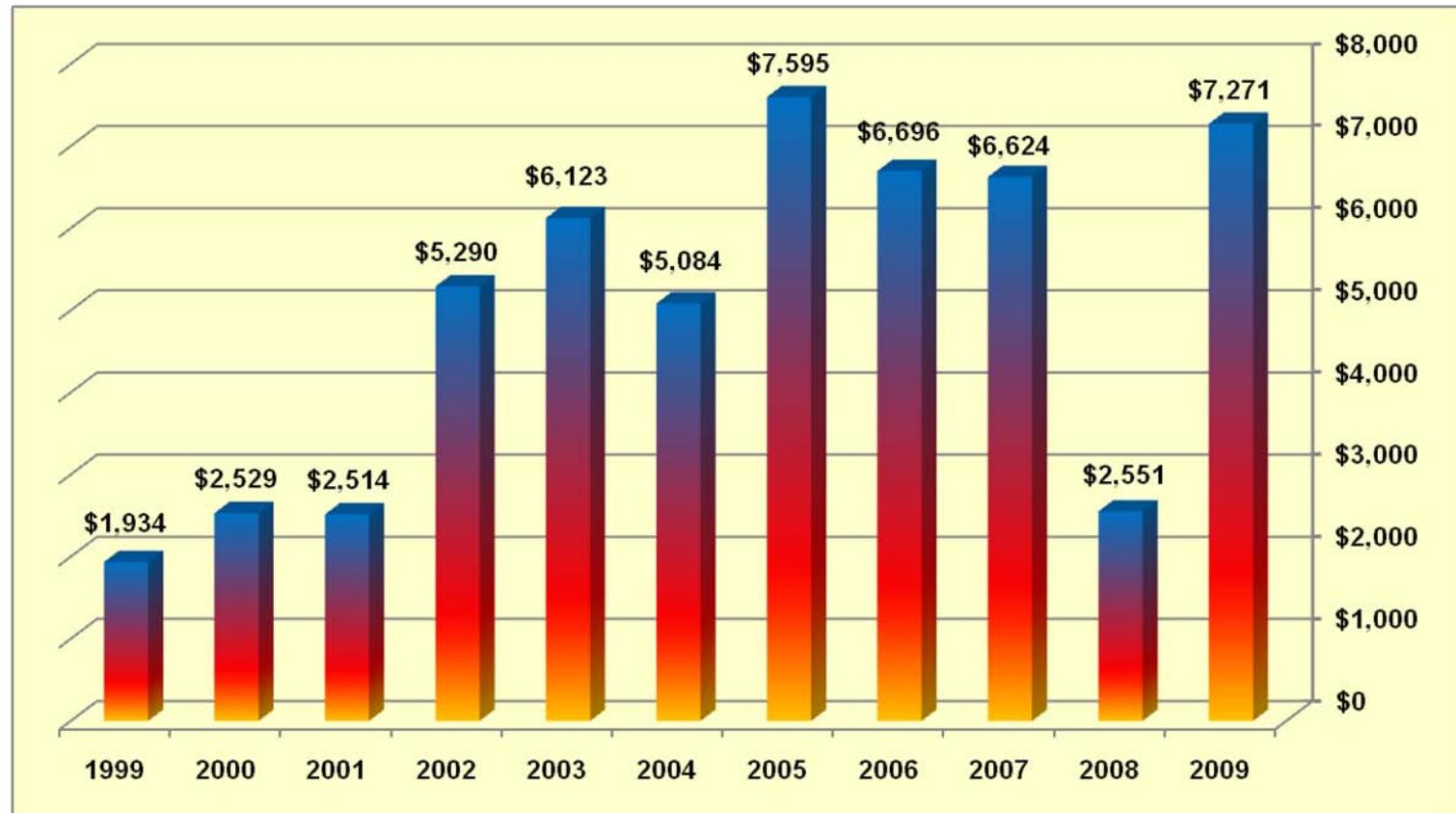


# Annual K-12 GO Bond Volume



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
<b>ASSESSED VALUATION AND PROPERTY TAXES</b>			
Estimated Sales Price			\$280,000
Homeowner's Exemption			(7,000)
Assessed Value			\$273,000
<b>AD VALOREM PROPERTY TAXES</b>			
General Purpose		1.00000%	2,730
Ad Valorem Tax			
Unified School District G.O. Bond		0.06000%	164
Water District		0.00700%	19
<b>Total Ad Valorem Property Taxes and Overrides</b>		<b>1.06700%</b>	<b>\$2,913</b>
<b>ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES</b>			
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
<b>Total Assessments and Parcel Charges</b>			<b>\$1,447</b>
<b>PROJECTED TOTAL PROPERTY TAXES</b>			<b>\$4,360</b>



# 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

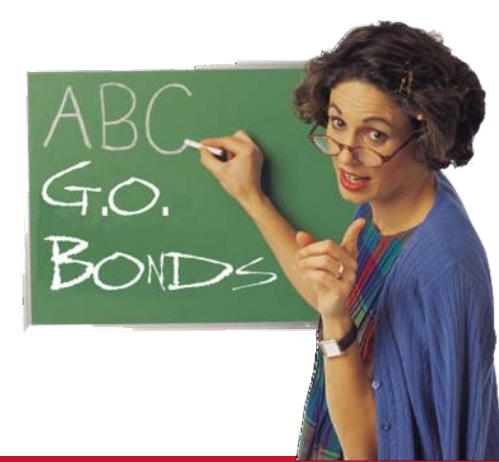
- **Tax Rate Limitations**

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



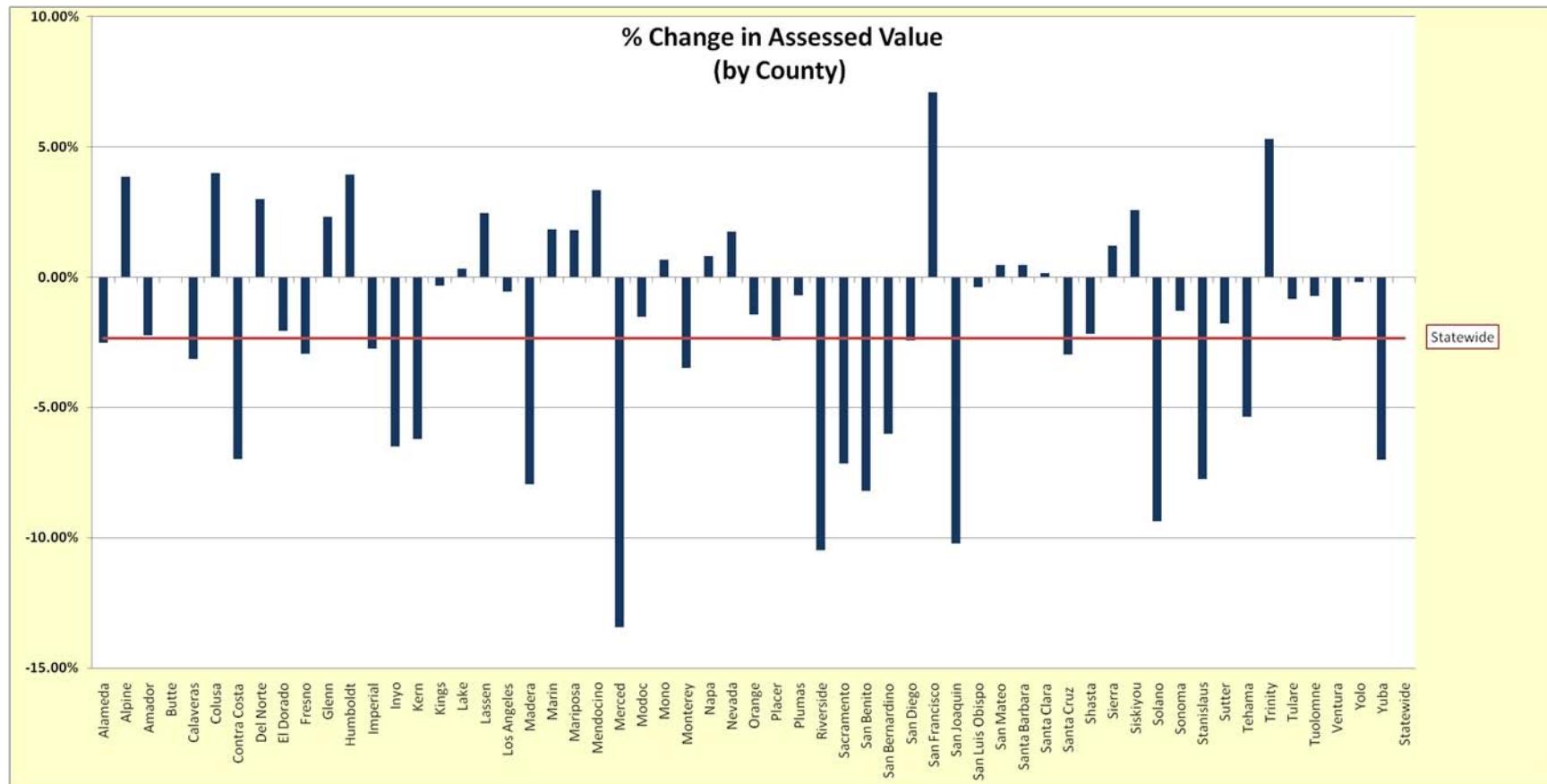
# Assessed Value Trends



- 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

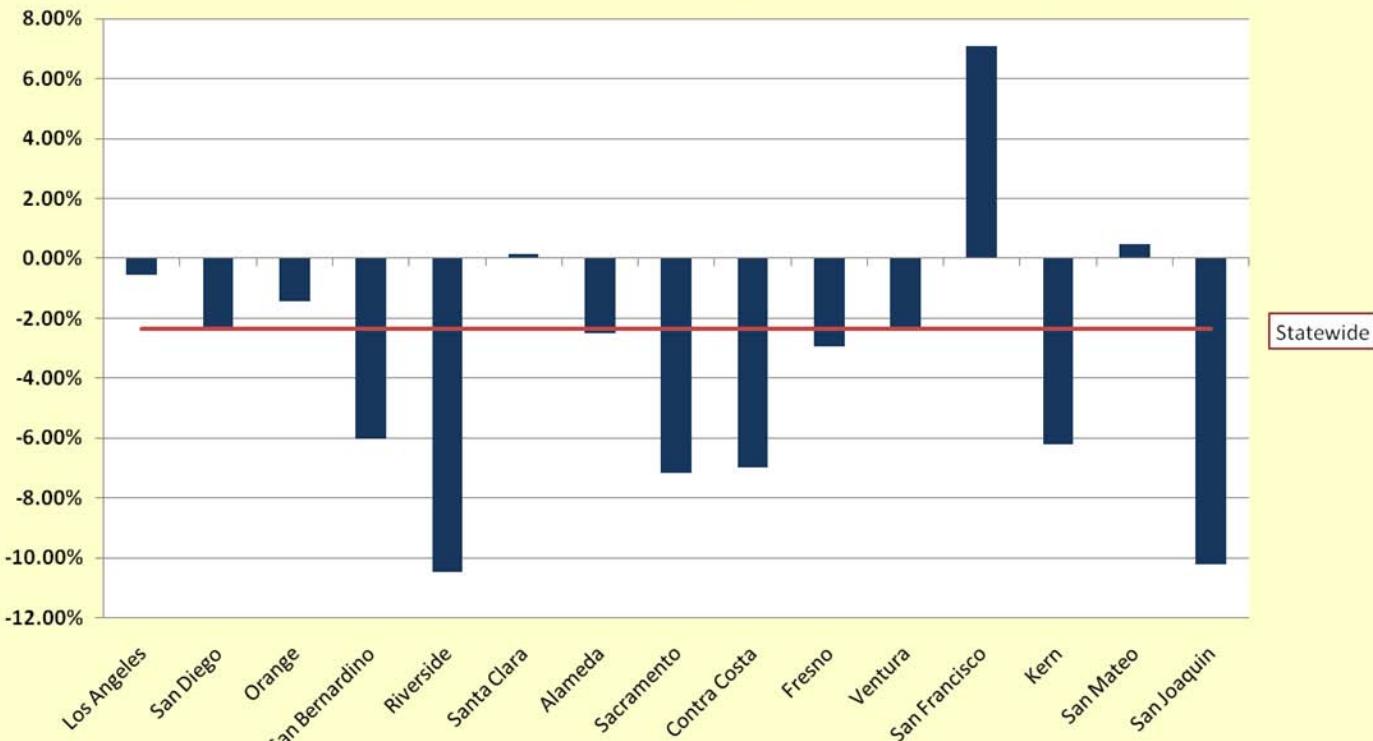




## A s s e s s e d V a l u e T r e n d s



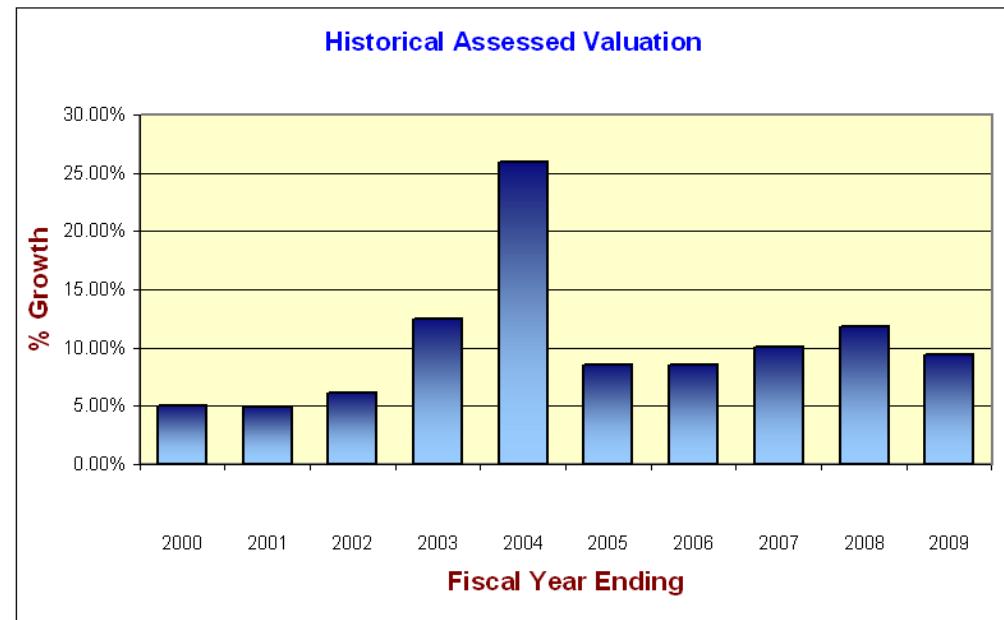
**A.V. Change for Top 15  
Counties by Population**



# History of Assessed Valuation



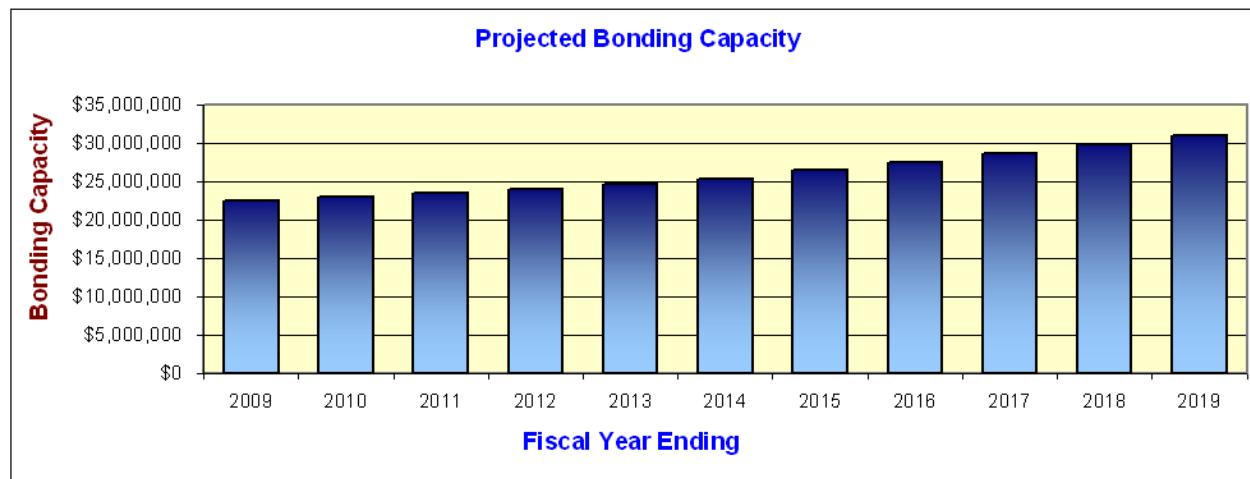
FY Ending	Assessed Valuation	AV Growth
1999	\$687,055,994	-
2000	721,695,404	5.04%
2001	757,220,988	4.92%
2002	803,428,129	6.10%
2003	903,745,727	12.49%
2004	1,138,476,772	25.97%
2005	1,235,918,619	8.56%
2006	1,340,791,145	8.49%
2007	1,476,442,534	10.12%
2008	1,650,373,253	11.78%
2009	1,804,850,737	9.36%
<b>Average Growth Rate:</b>		<b>10.28%</b>



# Statutory Bonding Capacity



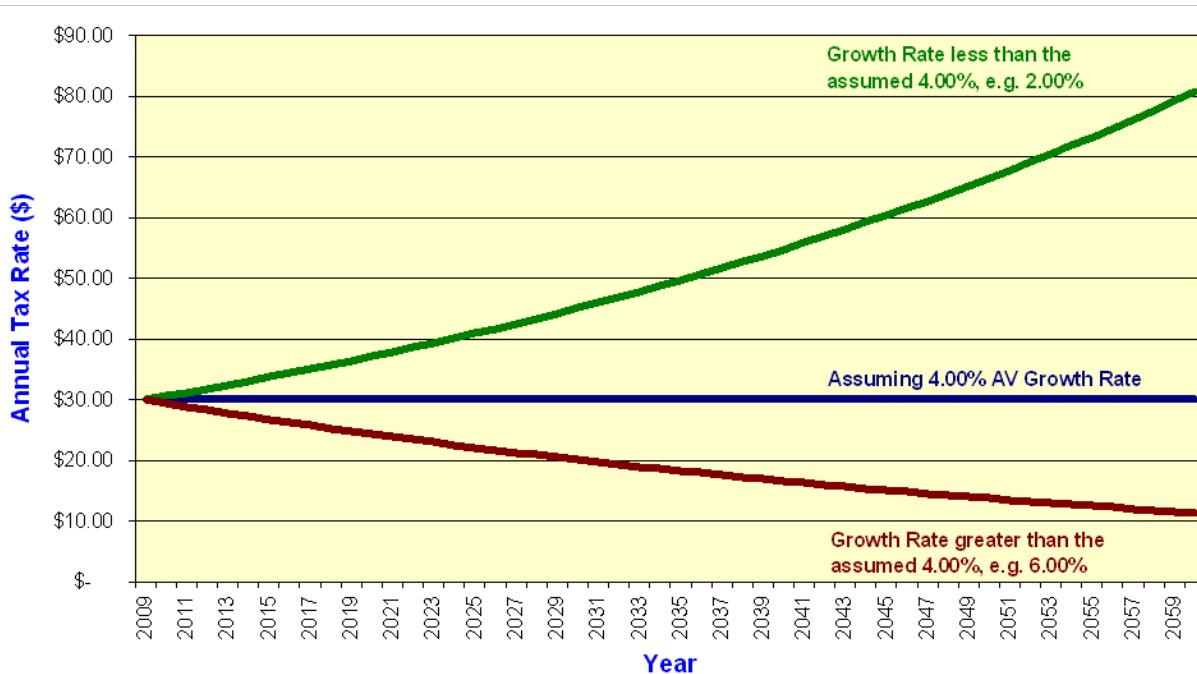
FY Ending	Assessed Valuation <sup>(1)</sup>	Assumed % of AV Growth <sup>(2)</sup>	Bonding Capacity
2009	\$1,804,850,737	-	\$22,560,634
2010	1,840,947,752	2.00%	23,011,847
2011	1,877,766,707	2.00%	23,472,084
2012	1,915,322,041	2.00%	23,941,526
2013	1,972,781,702	3.00%	24,659,771
2014	2,031,965,153	3.00%	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.

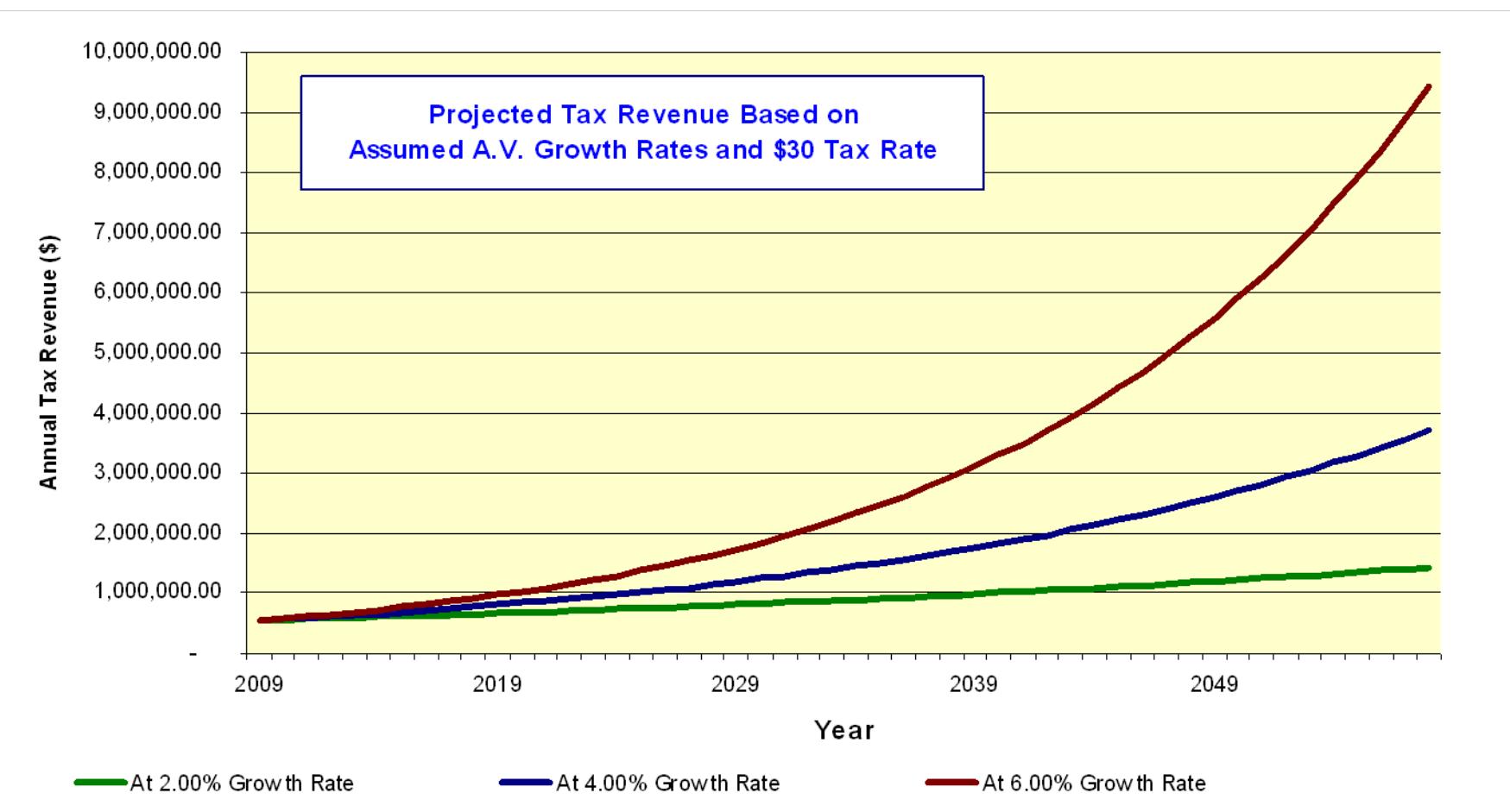
# Impact of AV Growth Rate on Tax Rates



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

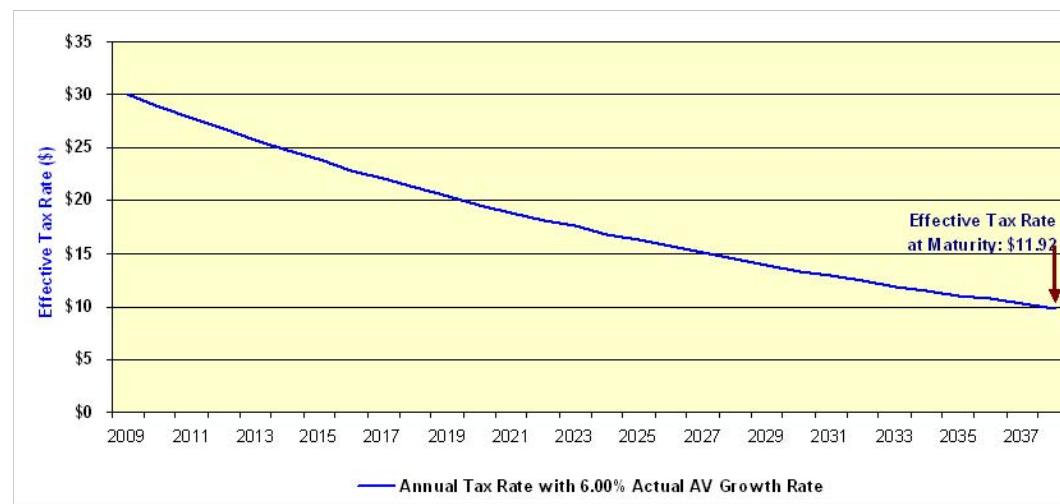
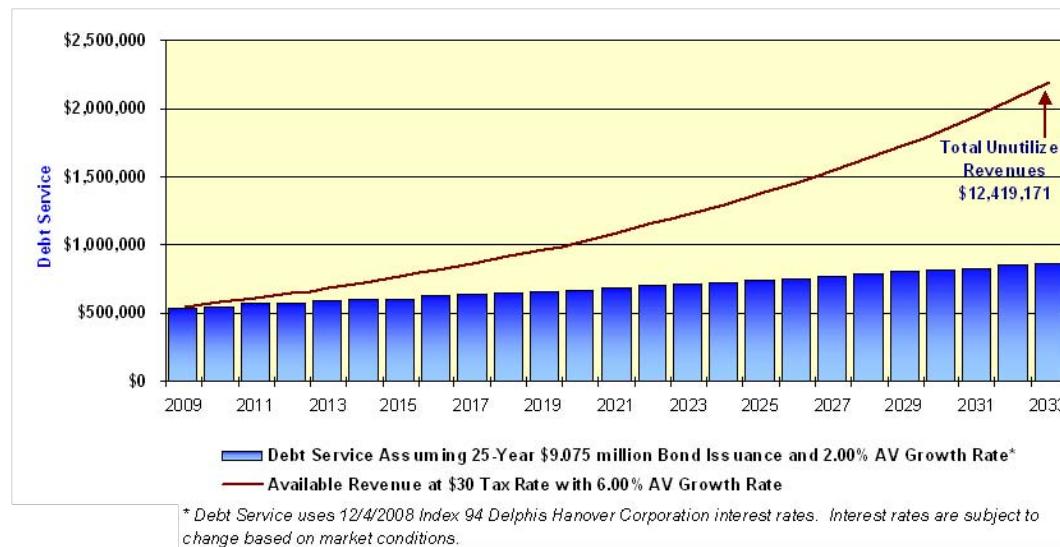


# Impact of Assessed Value Growth Rates on Projected Tax Revenue



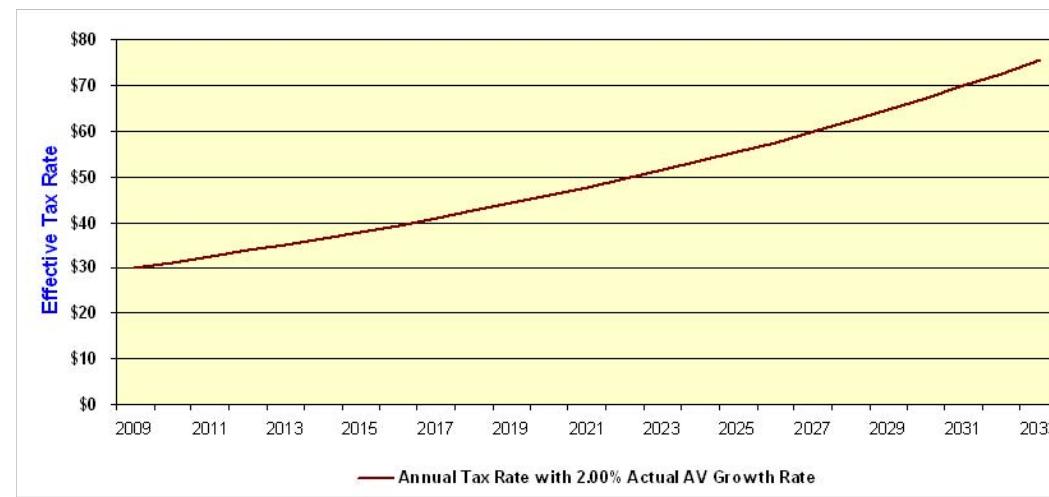
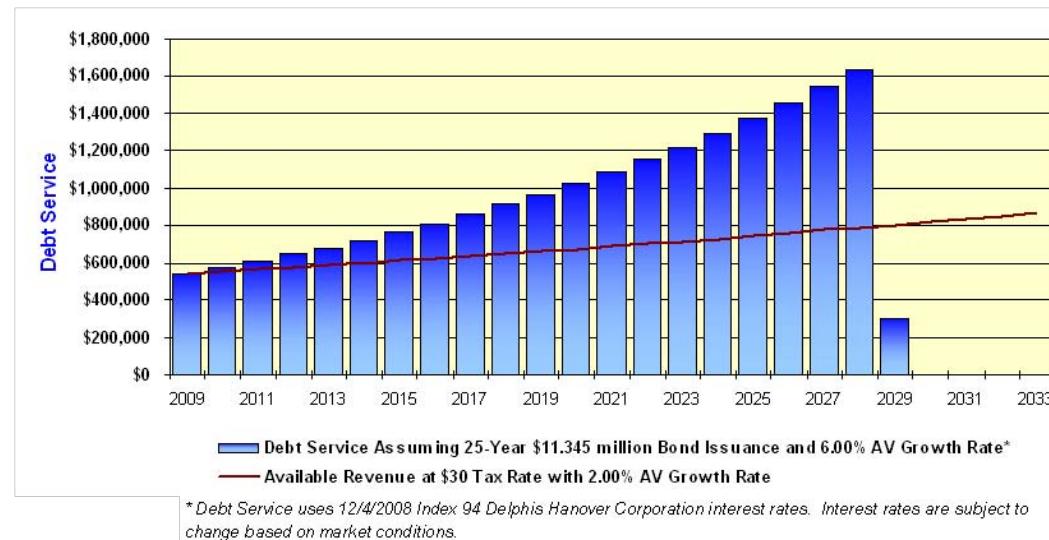


# Conservative Planning





# 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

