



FINANCING SCHOOL FACILITIES DESPITE DECLINES IN ASSESSED VALUES

BY ADAM S. BAUER, PRINCIPAL, FIELDMAN, ROLAPP & ASSOCIATES

The worst economic crisis since the Great Depression has required public agencies and other organizations to do things differently than initially planned. One example of this is that an increasing number of California school districts are issuing Bond Anticipation Notes (“BANs”) due to their inability to issue General Obligation Bonds (“GO Bonds”), because of declines in Assessed Values (“AVs”) and a tax rate limitation linked to Proposition 39 GO Bond measures.

“As AVs decline, the ability of a school district to issue GO bonds is reduced.”

Most school districts seek voter approval under Proposition 39 because the voter approval threshold required is 55% which is less than the GO Bond alternative of 67%. While Proposition 39 provides school districts with an opportunity to get approval at a lower voter threshold, it also limits school districts to a maximum tax rate cap of \$30 per \$100,000 for a union school district (elementary or high school district) and a \$60 per \$100,000 cap for a unified school district (K-12 district).

A school district’s tax rate is equal to the GO Bond principal and interest payment (“Annual Debt Service”) for a fiscal year divided by the

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

AV for that fiscal year. The formula for the calculation is detailed below.

As AVs decline the ability of a school district to issue GO Bonds is reduced. A factor that makes this even more challenging is that many school districts have previously issued GO Bonds with principal and interest payments that increase each year. In those instances, while the tax rate would increase due to the declines in AV, the tax rates increase at a faster rate due to the annual increase in principal and interest payment of previously issued GO Bonds.

As a result, it has become more difficult for school districts to issue GO Bonds. Notwithstanding the foregoing, in many cases the community still expects the school facilities they voted to support to be built. In many instances, school districts can issue BANs to provide school facilities in advance of the issuance of GO Bonds. BANs are a short-term financing instrument issued in anticipation of a long-term permanent bond financing. BANs can be used because they generally do not impact tax rates since they are repaid from future issuance of GO Bonds rather than added to property tax bills. The BANs would be issued to provide the initial funds to construct the school facilities. BANs are issued for a term not greater than 5 years which would then be repaid by an issuance of GO Bonds within 5 years.

Many factors must be reviewed before the finance team can determine the best structure for BANs. Key factors include reviewing the existing GO Bond debt outstanding and establishing the AV projections for future years. Determining future AVs is a complex task and some school districts

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2010 QUALIFIED SCHOOL CONSTRUCTION BOND ALLOCATION

BY ADAM S. BAUER, PRINCIPAL

Qualified School Construction Bonds (“QSCBs”) are a relatively new financing option created by the America Recovery and Reinvestment Act (“ARRA”) of 2009 and are a form of tax-credit bonds to promote the construction and improvement of public schools. It is important to note that despite the fact that QSCBs are considered tax credit bonds, legislation has modified how QSCBs work and most have been issued with a federal subsidy payment issued to the school district rather than the investor. When a school district sells a QSCB they receive a federal tax subsidy to pay all or a portion of the interest payment. This reduces debt service paid by the school district. Depending on the credit quality of the school district the interest cost could be as low as zero. Generally, proceeds of QSCBs are to be spent on constructing, rehabilitating, or repairing a public school facility, or for acquiring land on which such facility is to be constructed or repaired.

While the program was established by the ARRA, Assembly Bill 2560 (“AB 2560”) establishes that the

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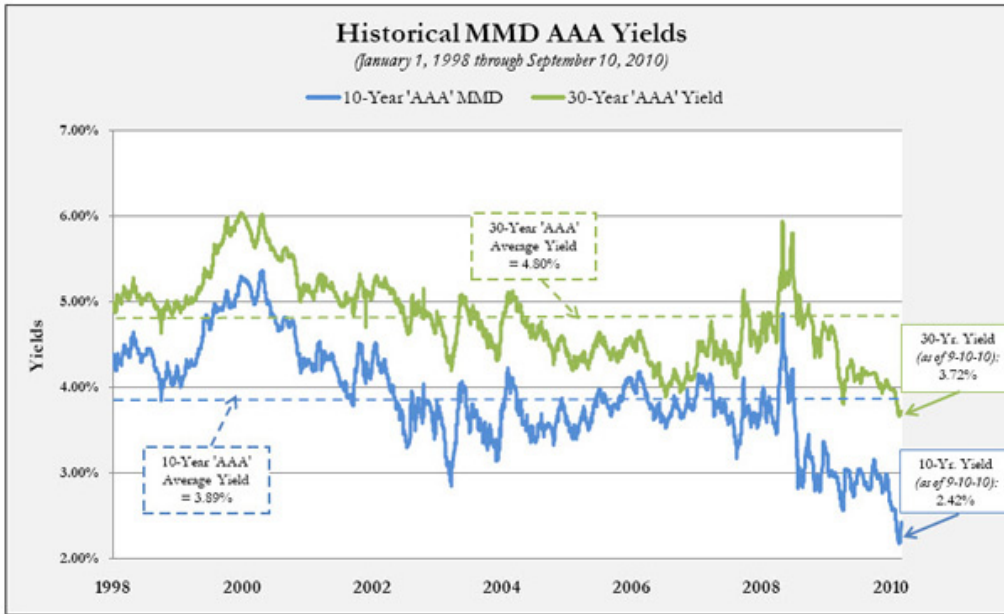
MUNICIPAL RATES AT 12 YEAR LOWS

BY RENEE CHRISTENSEN, ASSOCIATE, FIELDMAN, ROLAPP & ASSOCIATES

As most markets do, municipal interest rates have fluctuated over the last 12 years, which is demonstrated in the graph below.

municipal bonds are issued with a ten year call protection with the possibility of one advance refunding per original issue. Municipal rates

Prior to reaching a new low in 2010, yields had previously reached a low point in 2003 and spiked with the credit crisis in 2008. Currently, municipal yields are at historic lows and it is an ideal time to consider refunding outstanding debt. Two indices commonly used to gauge the level of rates in the municipal market are the “AAA”



Municipal Market Data (“MMD”) 10-year yields and 30-year yields. Both the “AAA” MMD 10-year yields and the 30-year yields are below their twelve-year averages with the 30-year yields currently 108 basis points lower and the 10-year yields currently 147 basis points lower. Most

have declined so much that many transactions that were issued in 2000 or earlier provide substantial savings if refunded. In some instances municipal bonds issued in 2001 and 2002 may be advance refunded providing substantial savings to a school district. An advance refunding is when municipal bonds are refunded more than 90 days prior to the call date. Many factors need to be considered when reviewing a refunding but it is a good time to review your school district’s outstanding debt to

see if there are opportunities to save either the school district or the tax payers’ money. If you would like to discuss in more detail, please contact Renee Christensen at (949) 660-7305 or rchristensen@fieldman.com. ♦

2010 QSCB ALLOCATION

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allocation of federal tax credits within the State of California will be administered by the State Department of Education and the California School Finance Authority (collectively “SDE”) who then assigns allocation to school districts, county offices (collectively “School Districts”) and charter schools. AB 2560 has been passed by both the State Assembly and Senate. AB 2560 is currently awaiting the Governor’s signature. The Governor can do one of three things with AB 2560 (i) sign it in which case it becomes law, (ii) do nothing for 30 days in which case it becomes law or (iii) veto it, in which case it does not become law.

WHO MAY APPLY

The 2009 QSCB allocation was a lottery and only required an application and Board Resolution approving participation in the

program. For the 2010 allocation SDE took a different approach by establishing a detailed criteria and approach for submitting an application. First, a School District may apply for QSCBs if the project identified in the application is to be funded by local voter-approved bonds or bond anticipation notes. A School District with an enrollment of 2,500 or less may use other forms of financing with the submission of a resolution adopted by their board. Second, a School District that received a 2009 allocation but was not able to issue bonds may apply but must wait nine months after the initiation of the program. Given the expected demand for the program, it is unlikely that allocation will be available nine months from its initiation. Third, a School District that received allocation directly from the federal government

in either 2009 or 2010 is not eligible to apply (see ARRA July 2009 Supplement online at www.fieldman.com in the Eye on Finance Archives for more detail on which school districts received allocation directly from the federal government).

2010 QSCB ALLOCATION PROCESS

Five days after the Governor signs AB 2560 or it becomes law by lack of veto by the Governor, SDE must post a QSCB allocation application on its web site. In addition, AB 2560 establishes requirements for School Districts who are submitting which are detailed below:

- A. An application must be submitted via certified mail
- B. An application shall not be postmarked until 30 business days after the enactment of the legislation

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2010 QSCBs (CONTINUED FROM PAGE 2)

C. An application shall include the number of enrolled pupils who qualify for the federal free and reduced priced meal program and the total overall pupil enrollment for the 2008-09 school year.

Given the expected demand for the program we expect that SDE will receive applications for more than the total allocation on the first day applications can be received which is 30 days after AB 2560 becomes law. Essentially the process will go as follows: AB 2560 becomes law by either Governor signature or lack of veto. Five days later SDE posts the QSCB application to its web site and 25 days later School Districts send their applications via certified mail. It is expected that 30 days after AB 2560 becomes law, the program will be fully subscribed.

SELECTION PROCESS

Applications that meet the criteria outlined above will be accepted on a first come first serve basis determined by the postmark. However, if the program is oversubscribed the allocation will be determined by the following:

- A. Earliest postmarked
- B. The project for which the application has been submitted has received approval from the Division of State Architect before the application was submitted
- C. The greater the percentage of pupils who qualify for federal free and reduced priced meals program for 2008-09 school year

No sooner than December 1, 2010, SDE will assign QSCB allocations to School Districts and maintain a waiting list if necessary. While there are several other requirements after allocation has been received, the most significant one is if the QSCB allocation is not used within six months from the date of authorization, any and all unused authorization will revert back to the SDE and no extensions will be provided.

For School Districts who qualify and receive allocation, issuing QSCBs could significantly lower their cost of borrowing. While AB 2560 awaits the Governor's signature it is a good time to plan for submitting an application. To discuss further, please contact Adam Bauer at (949) 660-7303. ♦

2011 SCHOOL DISTRICT PARCEL TAX & GENERAL OBLIGATION BOND WORKSHOP

If you missed the last Parcel and G.O. Bond Workshop which was held in Ontario last year, you will have another chance to attend this hugely successful event, possibly in your area.

Join a panel of experts in the field of school district financing who can help your district prepare for a successful Parcel Tax Election and General Bond Election. Learn ways to use Parcel Taxes and General Obligation

Bonds to reduce the burden on the General Fund and how current political and economic trends could affect your strategies. Receive a free political and debt capacity analysis when attendees register in advance.

For more information and to find out if this workshop will be in your area, contact Cynthia Kugler at (949) 660-7313 or ckugler@fieldman.com. ♦

UPCOMING SCHOOL DISTRICT CONFERENCES

CONFERENCE	DATE	LOCATION
COALITION FOR ADEQUATE SCHOOL HOUSING Fall Conference	OCT 12-13, 2010	WESTIN SOUTH COAST PLAZA HOTEL Costa Mesa, CA
SUBURBAN SCHOOL SUPERINTENDENTS 46th Annual Conference	NOV 3-6, 2010	THE LODGE AT TORREY PINES La Jolla, CA
CALIFORNIA SCHOOL BOARDS ASSOCIATION Annual Education Conference & Trade Show	DEC 2-4, 2010	MOSCONE CONVENTION CENTER San Francisco, CA
COALITION FOR ADEQUATE SCHOOL HOUSING 32nd Annual Conference*	FEB 21-24, 2011	SACRAMENTO CONVENTION CENTER Sacramento, CA

***SPECIAL NOTE:** General Obligation Planning Workshop, moderated by Adam Bauer, on Feb 22, 2010 at 3:30 p.m. at the conference.

FINANCING SCHOOL FACILITIES (CONTINUED FROM FRONT PAGE)

demands of the community and maintaining a school district's fiscal health has and will always be a challenge. However in this environment it is even more challenging. Careful planning and execution can lead to a

positive result. If you would like to discuss in more detail please contact Adam Bauer, Principal at (949) 660-7303 or abauer@fieldman.com. ♦

The information in this newsletter is intended to be general in nature. The facts and circumstances of each school district are different. Seek specific advice before implementing any recommendation.

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