

SCHOOL DISTRICT G.O. BONDS ON THE RISE

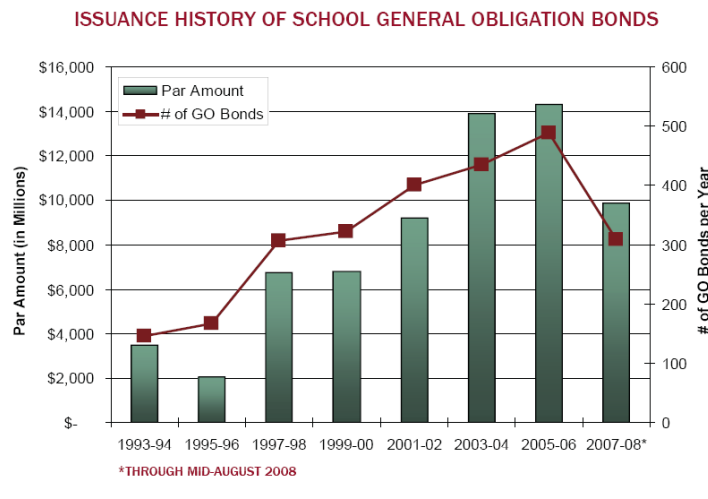
BY ADAM BAUER, SENIOR VICE PRESIDENT

Since the late 1990s, there has been a significant increase in the number of General Obligation (“GO”) Bond measures approved for California public school districts. A comparison of California Debt Investment Advisory Commission issuance records for two time periods shows that from 1995-1999 school districts issued \$8.0 billion in par amount of GO Bonds while during the period 2000-2005 California school districts issued \$33.4 billion in GO Bonds (see chart of GO Bond issues on back page). This considerable increase is a result of a number of factors detailed in this article.

Prior to explaining why there has been more GO Bond debt issued in recent years, it is important to understand how school construction and land acquisition are funded. Typically, California public school districts are funded through a matching program in which the State attempts to fund 50% of school site acquisition and construction costs, and the local school district funds the remaining 50%. However, many school districts have expressed that the State does not actually fund its full 50% share which leaves a gap. To pay for their share and to fill this gap, school districts use a variety of financing methods such as GO Bonds, developer fees, and mitigation agreements.

Of the several possible factors influencing the increase in GO Bond measures and issuance, the most prominent include the passage of Proposition 39, rapid escalation of assessed values, the State providing less than its 50% match, and pent up and increasing demand for school facilities.

With the passage of Proposition 39, California school districts were provided an alternative to the traditional election requirement of 2/3 voter approval for GO Bonds. Prop 39 allows for a school district to only require 55% voter approval if the district meets specific conditions. By lowering this threshold, GO Bond passage rates have increased and more school districts have been encouraged to place GO Bond measures on the ballot. As an example, on February 5, 2008 thirty-four school districts had GO measures on their ballots. The results were very positive - 27 of the measures were approved by voters resulting in a 79.4% passage rate.



The increased number of GO Bond issues can also be partially explained by provisions of Proposition 39. Formerly school district GO Bond issue par amounts were limited by either the maximum authorized amount of bonds approved by the voters or Government Code provisions with limits of 2.50% of taxable assessed value for a unified school district or 1.25% for a union school district. Since the passage of Prop 39, when a school district elects to seek voter approval through a Proposition 39 Election, an additional constraint is imposed as a trade-off for having access to the lower 55% approval threshold. This additional threshold is a revenue limitation requiring

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(CONTINUED)

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a reasonable expectation that a unified school district will not tax more than \$60 per \$100,000 of taxable assessed value, and a union school district not tax more than \$30 per \$100,000 assessed value.

Legally, if needed, a school district may levy whatever amount is needed to pay the principal and interest on the GO Bonds. But, as would be expected, school districts take the reasonable expectation pledge seriously and are very reluctant to exceed the politically pledged limit. The result of the revenue limit is typically smaller GO Bond authorization and issue sizes thus requiring school district is utilizing Prop 39 having to seek voter approval and sell bonds more frequently.

As an additional factor, rapid increases in assessed valuations have opened the GO window to many more school districts throughout California. In the last few years, it has not been uncommon to find a school district which has experienced 20% or more growth in assessed value – in one instance, a district experienced 45% growth in only one year! This growth increases the maximum amounts that can be issued, both under the traditional election revenue limit and the Prop 39 limit.

Since the passage of Proposition 39, school districts have experienced an overwhelming rise in the number of GO Bond measures presented and passed. School districts may be more inclined to seek voter approval knowing they only need 55% for a successful election. Along similar lines, voters may be more likely to approve a GO Bond knowing that the cost will be contained and their “Yes on 39” vote will help fund the needed improvements in their community schools. ♦

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