

SCHOOL DISTRICTS CAN NOW GO LONG WITH THE GOVERNMENT CODE

BY ADAM BAUER, PRINCIPAL

Historically, when issuing General Obligation Bonds (“GO Bonds”), School districts have had two options: issue under the Education Code or issue under the Government Code. The Education Code places no limits on the principal and interest repayment structure but does have a maximum term of 25 years. The Government Code, on the other hand, requires a level annual repayment of principal and interest but allows for a maximum term of 40 years. With that consideration in mind, many school districts have been opting to issue GO Bonds under the Education Code instead of the Government Code, since the Education Code allows the funding of more school facilities with increasing principal and interest payments over 25 years as opposed to the level principal and interest payment approach over 40 years under the Government Code.

However, beginning January 1, 2010, school districts will no longer be limited to the required level annual repayment of principal and interest under the Government Code. This is a very important change for school districts. Many school districts have been seeking voter approval under Proposition 39. Proposition 39 requires only 55% voter approval compared to a traditional authorization of 2/3. While the required voter approval has been helpful, Prop 39 also places limits on the maximum expected tax rates, calculated by dividing the school district’s outstanding debt by its assessed value. Detailed in the table below are three examples of debt structures. As you can see, allowing for a 2.00% increase in principal and interest payments and increasing the term from 25 years to 40 years substantially increases the amount of proceeds generated.

TERM	25 YEARS	40 YEARS	40 YEARS
DEBT STRUCTURE	2.00% Annual Increase (Escalating Debt Service)	0.00% Annual Increase (Level Debt Service)	2.00% Annual Increase (Escalating Debt Service)
AUTHORIZATION	Education Code	Government Code prior to January 1, 2010	Government Code after January 1, 2010
ASSUMED INTEREST RATE	5.50%	5.50%	5.50%
BEGINNING PRINCIPAL AND INTEREST PAYMENT	\$1,000,000	\$1,000,000	\$1,000,000
PROCEEDS GENERATED	\$16,279,366	\$16,046,125	\$21,161,049

Eliminating the requirement for level annual repayment of principal and interest will allow school districts to anticipate growth in assessed value for 40 years. If a school district has a fixed amount of facilities to fund, it can reduce the annual increase in principal and interest payments. Consequently, if the school district has a pent up demand for a large amount of facilities to fund, the change in the Government Code will allow the school district to fund additional facilities.

The change in the requirement for level annual repayment of principal and interest requirement allows for more options for school districts. During these tough times, having more options allows school districts to better meet the needs of the community. If you would like to discuss in more detail how this impacts your school district, please call Adam Bauer at (949) 660-7303. ♦

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