



CALIFORNIA'S
COALITION
for ADEQUATE
SCHOOL HOUSINGSM

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C.A.S.H. WORKSHOP
“Using Local Funds to Sustain Facility Staff, Projects, and Programs”

Tuesday, April 22, 2008

9:00 a.m. to 2:30 p.m.

Doubletree Hotel

2001 Point West Way

Sacramento, California

SCHOOL DISTRICT DEBT INSTRUMENTS

DENISE HERING

Stradling Yocca Carlson & Rauth

CALIFORNIA'S COALITION *for* ADEQUATE SCHOOL HOUSING

1130 K Street, Suite 210 • Sacramento, CA 95814 • Phone (916) 448-8577 • Fax (916) 448-7495 • www.cashnet.org

Handout materials are available online after the workshop. To download the materials, visit www.cashnet.org/meetings and click on the link labeled “Workshop and Conference Handouts.”

Coalition for Adequate School Housing
SCHOOL DISTRICT DEBT INSTRUMENTS
General Obligation Bonds, Certificates of Participation and
Lease / Leasebacks

Denise E. Hering, Esq.
Stradling Yocca Carlson & Rauth,
a Professional Corporation
April 22, 2008 – Sacramento
April 25, 2008 - Ontario

660 Newport Center Drive, Suite 1600
Newport Beach, CA 92660
dhering@sycr.com
(949) 725-4165

General Obligation Bonds

- A method of financing public school facilities
- Authorized by State Law
- Debt is Secured by Ad Valorem Taxes
 - Tax amounts determined based on property values (Proposition 13)

Bond Approval System

- Two Methods Available Under State Law
 - Proposition 46 (1986)
Required 2/3rds Favorable Vote
 - Proposition 39 (2000)
Requires 55% Favorable Vote
- (Can Only Use One Method at a Time)

School Facilities Improvement Districts (SFIDs)

- Application - Limited Area of a School District
 - May exclude territory, including but not limited to, Mello-Roos districts which finance school facilities
- Procedural Requirements

Proposition 39

- Approved by Voters on November 7, 2000
- Applies to School Districts, Community College Districts and School Facilities Improvement Districts

Types of Facilities

- 2/3 Vote
 - Real property only (land, buildings, permanent improvements)
- 55% Vote
 - All improvements, including furnishings and fixtures. Also includes leases.
 - **Foothill – De Anza Decision**
- No Teacher/Administrator Salaries or Operating Expenses

Maximum Annual Tax Rates

- 2/3 Vote: No limit
- 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 statewide 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
 - Performance and financial audits

Statutory Bonding Capacity Limits Amount of Bonds Sold in Any Fiscal Year

- 1.25% of assessed value for elementary and high school districts
- 2.50% of assessed value for unified school districts
- 2.50% of assessed value for community college districts

***Proposition 39 Constraints
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***

- 25 years most common repayment period
 - Allows level or escalating bond payments
- 30- to 40-year repayment periods less common
 - Level bond payments required

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

Upcoming Proposition 39 Election Dates

- June 2008
- November 2008
- Other dates only if coincide with regularly scheduled district-wide election
 - School Board election
 - County election
 - Special District election
 - Community College election

General Obligation Bonds:
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

General Obligation Bonds:
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

RULES FOR BOND CAMPAIGNS

- **District MAY provide balanced, non-promotional information about bond measure**
- **Employees MAY NOT 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**

Lease Financing Structures

What is Lease Financing?

- Financing mechanism permitting a school district (lessee) to finance property to be repaid with lease payments
- Generally available to finance any school district project or property/equipment acquisition over time *without* voter approval

What is Lease Financing?

- Lease financings are usually structured using the following:
 - Direct Lease
 - Certificates of Participation (“COPs”)
 - Lease Revenue Bonds

Direct Lease

- Ideal for acquisition of equipment, buses and relocatable classrooms
- Vendor, Leasing Company or Bank serves as lessor
- Term equals useful life of leased asset (3-30 years)

Direct Lease

- Secured by the general fund – no new revenue source created
- Not appropriate to finance O&M expenses
- Funding process can be completed in 30 days

Certificates of Participation

- Ideal for construction of school facilities and acquisition of land or refinancing of existing leases
- Lease/Leaseback structure
- Lessor is generally a nonprofit corporation or joint powers agency
- Lessee is school district

Certificates of Participation

- Lessor assigns collected lease payments to COP owners (investors) to repay debt
- Trustee pays COP owners (investors) principal and interest due

Certificates of Participation

- School district identifies asset to be leased
 - Existing school (asset transfer)
 - Facility to be constructed (construction financing)
- Advantages to asset transfer
 - No need for capitalized interest
 - Stronger credit – no risk due to noncompletion
- Legal concepts
 - Fair rental value of asset
 - Abatement of lease payments

Certificates of Participation

- Lease Term equals useful life of leased asset (5-30 years)
- Secured by lease payments made by school district for the use of the facilities or equipment
- Generally secured by School District's general fund – no new revenue source is created

Certificates of Participation

- Useful mechanism for “Bridge Financing” prior to receipt of State Funds or GO bond proceeds
- Can be structured and sold within 75 days

Lease Revenue Bonds

- Very similar to COPs (uses, lease term, financing process)
- Issued by Joint Powers Authority or Nonprofit Corporation as the lessor
- Useful for pooling financings with different revenue streams

*Lease Financing Structures:
Advantages*

- No voter approval required
- Significant flexibility because of lack of procedural and other restrictions
- Can be accomplished in a relatively short time
- Can finance virtually any real or personal property

*Lease Financing Structures:
Disadvantages*

- Does not generate additional revenue to pay debt service
- More complex and less secure than general obligation bond financing, interest rates and costs of issuance are higher
- COPs/Lease Revenue Bonds require reserve fund for investor security
- Ongoing administration costs