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CASH Spring Conference

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Improve Short Term Cash Flow – Internal and External Borrowing Instruments and Requirements; The American Recovery and Reinvestment Act of 2009 Implications for School Facility Funding

Moderated by:



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Panelists:



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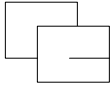


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Elements of Presentation

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I. Finance Mechanisms & Tools for School Districts



Reasons Why School Districts Use Financing...

- **Acquire land**
- **Modernize / renovate facilities**
- **Acquire equipment / furnishings**
- **Fund working capital**
- **Prepay pension obligations**
- **Refinance existing obligations / leases**



Current California School District Challenges

- **State Funding Challenges**
- **Declining Revenues (Assessed Valuation, Redevelopment, Developer Fees, etc...)**
- **Unknown Future (new planning horizon)**
- **Limited Investor Appetite for Municipal Offerings**
- **And Others...**



Finance Mechanisms & Tools

- **General Obligation Bonds (GO Bonds)**
 - Education Code (Maturities to 25 yrs)
 - Government Code (Maturities to 40 yrs)
- **Bond Advancement Programs**
 - Bond Anticipation Notes (BANs)
 - Tender Option Lease Revenue Bonds / Certificates of Participation (COPs)
 - Capital Appreciation Bonds (CABs) & Convertible CABs
- **Tax and Revenue Anticipation Notes (TRANS)**
 - Short term operation and capital expenditures
 - Greater needs with 2009 budget issues
- **Other: Parcel Tax, Redevelopment, RMID's,CFD's and SFID's**





General Obligation Bonds

- **Assessed Valuation Growth Assumptions Are Critical**

- Voter approved authorization \neq proceeds available today
- Higher growth assumptions would allow earlier issuance
- Lower growth assumptions delay issuance
- Reality check is critical while keeping in mind tax rate promised



Bond Anticipation Notes (BANs)

- **Access short-term market now for facility proceeds**

- Typically lower shorter-term interest rates
- Depends on future ability to issue G.O. Bonds

- **Variable Rate Lease Revenue Bonds / COPs**

- **AB 1368 extends BANs amortization from one to five years**



AB 1368 (Mullin Bill)

- **AB 1368 went into effect on January 1, 2008**

- ❑ Given the current financial markets, this tool could be used to give school districts access to bonds already authorized sooner
- ❑ BANs and renewals thereof must be payable not more than five years from the date of the original issuance of the BANs
- ❑ Total amount of BANs or renewals thereof may not exceed the total amount of authorized but unissued bonds
- ❑ The proceeds from the sale of the BANs must be used only for authorized purposes of the bonds or to repay outstanding BANs previously issued



Capital Appreciation Bonds (CABs)

- **CABs**

- ❑ No interest payment made by issuer until maturity
- ❑ Compounds interest on a periodic basis until maturity
- ❑ Used to access future bonding capacity today

- **Convertible CABs**

- ❑ Compounds interest for several years & then converts to paying semi-annual interest from a future date until maturity



Bond Advancement Program

- **Issue Certificates of Participation or Lease Revenue Bonds**

- Advance/finance bond authorization \$ to meet immediate facility needs
- Pay-off w/GO Bonds in future when assessed value has grown
- Common use in school finance to avoid limitations imposed by Prop 39 elections




CASE STUDY Who Issues Municipal Bonds?




*P*oway Unified School District

- **Building for Success Needs**

- Modernization and New Construction Program – equality of facilities for both programs
- Rising construction costs
- Community expectations
- Acceleration of future Series of 2004 GO Bonds (2006, 2009, 2013) to enable completion of program by 2011
- Capturing State Matching Funds for Priority Projects




CASE STUDY




• Building for Success Opportunities

- ❑ Bridge Funding Program (2004) – collapsed in 2008 with no costs incurred to general fund
- ❑ Bond Advancement Program (2008) – scheduled to be collapsed in three tranches by 2014 with no costs incurred by general fund
- ❑ Ability to capture ALL State matching funds for priority projects
- ❑ Provide sufficient funds to award contracts
- ❑ Reduced the effects of construction cost increased by completing priority school projects
- ❑ Delivered priority school projects earlier than promised
- ❑ Recognition by San Diego County Taxpayers Association and received of Golden Watchdog Award as a result of 2004 bridge funding program

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CASE STUDY



Facilities Plan & Multi-Pronged Funding Sources

Total Facilities Plan:

- \$855 Million
- 35 Projects

Funding Sources (\$M)	\$7	\$11
	<1%	1%
\$280		\$370
33%		44%
	\$182	
	21%	

GO Bond Funding

State Funding

CFD Funding

Developer/Mitigation Fees

Other*

Facilities Plan To Date:

- \$483 Million
- 16 Projects

*Other includes contributions and redevelopment pass through revenues

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GO Bond Funding

CASE STUDY



APPROVAL

Measure U SFID General Obligation Bonds

November 5, 2002

\$198,000,000 Bond Authorization

Measure C SFID General Obligation Bonds

February 5, 2008

\$179,000,000 Bond Authorization

Total Bond Authorization: \$377,000,000

Target Bond Issuance Year	Target Amount	Actual Bond Issuance Year	Actual Amount
2003	\$50,280,000	2003	\$75,000,000
2006	\$45,000,000	2006	\$119,300,000
2009	\$44,000,000	2008*	\$3,700,000
2013	\$58,720,000	N/A	N/A
10 Years	\$198,000,000	5 Years	\$198,000,000

Target Bond Issuance Year	Target Amount	Actual Bond Issuance Year	Actual Amount
2008	\$74,000,000	2009	\$74,000,000
2011	\$26,800,000	TBD	TBD
2014	\$26,850,000	TBD	TBD
2014	\$51,350,000	TBD	TBD
6 Years	\$179,000,000		

Bond Advancement Program

CASE STUDY



Challenge	Mechanism/Tool Used to Solve Challenge
GO Bond capacity is in the future: procure/advance funds now for immediate project needs	<p>Implemented 2 separate BAPs in 2004 and 2008 which provided:</p> <ul style="list-style-type: none"> interim financing mechanism meeting immediate needs permanent financing mechanism in event other future sources are delayed early program pay-off flexibility flexible/adjustable-rate mode after implementation Tools: adjustable-rate lease revenue bonds & convertible CABs
	<p>Benefits/Results</p> <ul style="list-style-type: none"> Provided capability to advance construction schedule by >4 years Captured State matching funds for Priority School Projects (PSP) PSPs completed early/available to students prior to projections Reduced effects of construction cost inflation Ensured sufficient funds on-hand to issue contracts for PSPs in accordance with State funding requirements



Tax and Revenue Anticipation Notes (TRANS)

❖ What are they? Short-term borrowing

- Maximum 13 months
- May be tax-exempt or taxable
- Must be repaid from revenues of the same fiscal year; repayment set-asides made during the year
- Current issue: late payments to District from State pledged after end of fiscal year

❖ What are they used for? To provide working capital and smooth out cash flow fluctuations during the year

- Sized to cover maximum cash flow deficit
 - May be used for current expenses, capital expenditures and investment and reimbursement
 - May be able to keep arbitrage earnings
-



Tax and Revenue Anticipation Notes (TRANS)

- **No voter approval required**
 - **Require school board and sometimes county board approval, ratings (or credit enhancements) and disclosure**
 - **Alternative: Borrow from the County Treasurer in negative months with no opportunity to earn interest in positive months, and pay Treasurer higher interest rate on borrowed funds than TRAN rates**
-



Tax and Revenue Anticipation Notes (TRANS)

Some Districts May Issue on Their Own

- **Revisions to Government Code §53853(b)**
- **Permit counties to opt out of TRANS issuance**
- **Few counties have taken advantage**
- **Check with your COE**



Tax and Revenue Anticipation Notes (TRANS)

Mixing TRANS with BANs

- **Proceeds of TRANS may be used for capital projects, BUT**
- **Past debt service payments may NOT be reimbursed or paid from Bond proceeds**
- **Consult with your Bond Counsel**



Other Financing Mechanisms

- **Parcel Tax**

- Can be used for maintenance as well as facilities
- 2/3's approval percentage required of voters

- **Community Facilities District (CFD)**

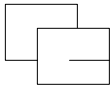
- Primarily new development
- 2/3's approval percentage required of voters/land owners

- **Redevelopment Tax Increment**

- **Recreational Maintenance Improvement District (RMID)**

- **School Facilities Improvement District (SFID)**

- GO for restricted areas
-



II. School-Related Federal Stimulus Bonds



Bond-Related Components of Economic Stimulus Act

American Recovery and Reinvestment Act of 2009 (ARRA) contains measures designed to stimulate issuance and purchase of municipal bonds in 2009 and 2010.

✓ **Provisions to Increase Demand for Municipal Bonds**

- Elimination of AMT on all bonds issued in 2009 and 2010 or refundings of bonds issued 2004 to 2008
- Increase “small issuer” definition for Bank-Qualified Bonds from \$10M to \$30M and bank deductibility of tax-exempt interest



Build America Bonds

• **What Are BABs?**

✓ **Taxable bonds**

- Expands market to investors who prefer taxable returns
- Bonds that could otherwise have been issued as tax-exempt
- Government purpose bonds only
 - No Private Activity Bonds, e.g. affordable housing, student loans, IDBs
 - No 501(c)3 bonds
- No volume limitation for new money bonds issued in calendar 2009 and 2010
- Interest payable even if issuer is in default



Varieties of Build America Bonds

• Direct Subsidy BABs

- Issuer receives subsidy of 35% of interest payment – federally guaranteed revenue stream
 - Payments can go directly to bond trustee or
 - Payments may go directly to issuer for other expenditures
- Limit costs of issuance to 2% of principal
- No refundings permitted – new money projects only
- Arbitrage calculations based upon net payment by issuer



Varieties of Build America Bonds

• Tax Credit BABs

- Bondholder receives 35% tax credit
 - Tax credit payment is taxable
 - Earned quarterly
- May strip the tax credits and sell them separately
- Same rules for capitalized interest & issuance costs as apply to tax-exempt bonds
- Tax credits do *not* count in arbitrage calculations
- Refundings and working capital are eligible



Varieties of Build America Bonds

- **Tax Credit BABs**

- Tax Credit BABs may finance both refundings and working capital, and may be used to reimburse capital expenditures made prior to February 17, 2009, none of which are allowed under Direct Subsidy BABs

If a District is up against its bonding capacity or Prop 39 tax levy cap, Tax Credit BAPs are the solution



Tax Credit BABs

Working Capital Loans

- **May be done as TRANS, with 12-13 month term**
- **No interest component**
- **Challenges of taxable markets**
- **Will only make sense when one-year tax-exempt rates are high**



Qualified School Construction Bonds (QSCBs)

- **What are QSCBs?**

- A new form of tax credit bonds to promote the construction and improvement of public schools
 - Treasury Department allocated QSCBs to some urban districts
 - State to develop regulations for allocating volume cap to other districts
- Bonds are sold with a tax credit to investors that substantially replaces interest payments on the bonds
- Tax Credit Bond
 - https://www.treasurydirect.gov/govt/rates/irs/rates_qtcb.htm
- 15 year max terms so far; first deal sold at just over 14 years
- Higher Tax Credit Rate than BABs (Tax Credit)



Qualified School Construction Bonds (QSCBs)

- **Allocation Amount** (IRS Notice 2009-35)

<http://www.irs.gov/taxexemptbond/article/0,,id=206034,00.html>

- National Amount for States and Territories (except Puerto Rico)
 - \$11 billion (2009), \$11 billion (2010)
 - 60% allocated to states and territories
 - 40% to 100 largest school districts by population below poverty level
 - Additional \$200 million in each of 2009 and 2010 for Indian Tribes
 - Unused allocations carry forward one additional year
 - Unused large issuer allocations can be re-allocated to State



Qualified School Construction Bonds (QSCBs)

• California Allocations

- 2009 - \$773.5 million to State and \$582.0 million directly to 11 large issuers
- 2010 - \$1.36 billion total for State and large issuers (determined presumably later in 2009)

• Use of Proceeds

- Public school construction, rehabilitation and repair
- Acquisition of land for facility funded with QSCBs
- Equipment for use in facility funded with QSCBs (or portion thereof)

Local Educational Agency	Allocation
Bakersfield City Elementary	\$15,720,000
Compton Unified	18,559,000
Fresno Unified	41,398,000
Long Beach Unified	37,905,000
Los Angeles Unified	318,816,000
Oakland Unified	26,326,000
Sacramento City Unified	21,251,000
San Bernardino City Unified	27,790,000
San Diego City Unified	38,877,000
Santa Ana Unified	19,269,000
Stockton City Unified	16,055,000



CASE STUDY



San Diego Unified School District

• Overview of Challenges/Needs

- \$2.1B General Obligation Bond Program
- Granted \$38,875,000 in QSCBs in March 2009
- Who buys the tax credit bonds?
- How are the QSCBs structured?
- What type of return does the investor receive?



Qualified Zone Academy Bonds (QZABs)

- **Use of Proceeds**

- Public school rehabilitation and repair (no new facilities)
- Equipment (including for pupil transportation)
- Course materials and personnel training

- **Special Requirements**

- Formation of Qualified Zone
 - Area with 35% or more students qualifying for Free and Reduced Lunch
 - Located within Federal Empowerment or Enterprise Zone
- Private Partner Requirements
 - Commits to donate an amount equal to at least 10% of principal (cash, equipment, services, etc., but not land)
 - Helps to implement academic programs associated with QZAB



Qualified Zone Academy Bonds (QZABs)

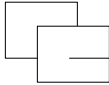
- **What are QZABs?**

- Tax Credit Bond (non-BAB)
https://www.treasurydirect.gov/govt/rates/irs/rates_qtcb.htm

- **Allocation Amount (IRS Notice 2009-30)**

<http://www.irs.gov/taxexemptbond/article/0,,id=206034,00.html>

- National: \$400 million (2008), \$1.4 billion (2009) and \$1.4 billion (2010)
- CA: \$44.4 million (2008), \$155.3 billion (2009) and \$155.3 billion (2010)
- All unused allocations carry forward two additional calendar years



III. Speaker Information



The Presenters



Sandra G. Burgoyne, Planning Director
Representing the
Poway Unified School District

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Sandra "Sandi" Burgoyne has been with the Poway Unified School District since 1974 and has been responsible for school facilities funding since 2000. During the past nine years, she has successfully negotiated the formation of five new community facilities districts (CFDs), amended numerous developer mitigation agreements and implemented the formation of thirteen CFD improvement areas with developers and land owners. These negotiations have enabled the District to generate additional special tax revenues to support the rising costs of school facilities construction.

To date, she has directed the District's issuance of over \$545 million in special tax bonds using various financing instruments, and has overseen the issuance of four series of General Obligation bonds totaling over \$270 million. In addition, Sandi also negotiated the District's issuance of two separate short term financings: a \$100 million Certificate of Participation financing and a \$92 million issuance of Lease Revenue Bonds used to "bridge" the funding revenue shortfall between the receipt of State and local funds.

Sandi is an active member of both CASBO and CASH and has been a frequent speaker on school facilities and finance in California. She is co-chair of Californians for School Facilities, an advocacy group that lobbies the Federal Government to provide federal funding for California school facilities. She was also a pivotal member of the financing team that secured the San Diego County Taxpayer's Association coveted Golden Watch Dog Award in 2005. She is a graduate of San Diego State University with a Bachelor's of Science Degree in Finance.

The Poway Unified School District is located north of the City of San Diego and includes the city of Poway and portions of the City of San Diego and unincorporated areas of the County, including the communities of Black Mountain Ranch, Del Sur, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 45 Ranch. The District currently operates twenty-five elementary schools, six middle schools, four high schools, one continuation high school and one adult school. The final comprehensive high school is currently under construction and is scheduled to open Fall of 2009. The District's CBEDS enrollment for 2008 was 33,306. The District is under the authority of the San Diego County Office of Education



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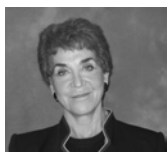
Koppel & Gruber Public Finance

Lyn Gruber is a Principal of Koppel & Gruber Public Finance and is a seasoned professional with fifteen years of experience in public finance. Ms Gruber works with School Districts, Cities, Counties and special districts throughout California focusing her efforts on the formation and administration of Community Facilities Districts, bond disclosure, arbitrage calculations, fee justification studies and School Facilities Needs Analysis Reports. Lyn has been an active member of CASH since 1995 and is currently a member of the CASH Board of Directors.

Koppel & Gruber Public Finance was formed with the mission of providing local government with expertise in real estate based financing mechanisms. Koppel & Gruber Public Finance specializes in financial consulting representing school districts and other public agencies. The firm is located in San Marcos, California. Please visit our website at www.kgpf.net.



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**Lisalee Anne Wells
Fulbright & Jaworski L.L.P.**

Lisalee Wells is a Partner in the Los Angeles office of Fulbright & Jaworski L.L.P. She has been active in California public finance for more than thirty years and specializes in assisting school and community college districts to achieve their financing goals. Both as Bond Counsel/Disclosure Counsel and as counsel to Underwriters, Lisalee has worked on general obligation bonds, bond anticipation notes, TRANs, certificates of participation in both variable and fixed rate modes, special products, Mello-Roos CFD bonds, waivers of bonding capacity limits, developer relations, validation lawsuits, Qualified Zone Academy Bonds and Qualified School Construction Bonds. Lisalee is a frequent lecturer and panelist on subjects relating to her public finance practice, including at the Bond Attorneys Workshop hosted annually by the National Association of Bond Lawyers. She also provides training to Citizens Oversight Committees, Governing Boards and others on general obligation bonds, Board governance and the State conflict of interest rules.

Lisalee holds her J.D. from Stanford Law School and her undergraduate degree from Wellesley College. She is a retired Captain, JAG Corps, United States Naval Reserve Fulbright & Jaworski L.L.P. Fulbright celebrates its 90th anniversary in 2009 and includes approximately 1,000 lawyers, some of them officed outside of the United States. The Los Angeles office of the firm includes 13 full-time public finance professionals and has a substantial K-12 practice. The firm regularly places in the top ten Bond Counsel, Underwriter's Counsel and/or Disclosure Counsel firms in the country and handles billions of dollars in public finance matters each year, ranging from states and state agencies to transportation authorities, counties and special districts. Over the past three years, the Los Angeles office of Fulbright closed 107 transactions for school and community college districts in California.



The Presenters



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John R. Baracy is a Vice President in our Los Angeles office. He brings over 15 years of experience to California and Arizona education finance. John has expertise in the structuring of new money and refunding issues, analysis of debt capacity, tax rate analysis, rating agency credit presentations, arbitrage rebate requirements, derivative financings, and investment of bond proceeds for general obligation bonds, certificates of participation, Mello-Roos bonds, and all other education financing vehicles.

John is a member of the 2009 CASH Statewide General Obligation Bond Committee. He comes from an education family: his parents are long-standing administrators of a school district and community college in Arizona. John has a bachelors of science degree from Arizona State University. He also enjoys playing golf and is an active snowboarder.

Stone & Youngberg LLC

Stone & Youngberg was founded in San Francisco in 1931. The firm was established to advise, structure, underwrite and sell California municipal bonds. In addition to its headquarters office in San Francisco, the firm maintains public finance and sales offices in Los Angeles, San Diego, New York, Chicago, Phoenix, Richmond and Annapolis.

Today, Stone & Youngberg is California's largest regional investment bank devoted to municipal bonds. Over the past five years, Stone & Youngberg has led all investment banks and financial advisors by structuring the most long-term government financings in California.

Stone & Youngberg's leading status in local California municipal finance reflects the firm's 78-year dedication to helping local public agencies achieve their financial goals. In 2008, Stone & Youngberg underwrote 72 financings for California public agencies. Since 2004, Stone & Youngberg has participated on over 725 transactions representing \$16.6 billion of California financings as sole or senior managing underwriter or financial advisor in all areas of municipal finance. The firm's website is www.syllc.com.