

C.A.S.H. JANUARY 2009 WORKSHOP

Increase Local Revenue with Bonds and Parcel Taxes

Douglas N. Yeoman
Parker & Covert LLP
17862 E. 17th Street, Suite 204
Tustin, CA 92780-2164
dyeoman@parkercovert.com

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Introduction

- How can funds from Parcel Taxes, Proposition 46 General Obligation Bonds (2/3 vote), and Proposition 39 General Obligation Bonds (55% vote) be expended?
 - Requirements and Characteristics
 - Authorized Uses
 - Summary Comparison Table

Parcel Taxes

- Parcel taxes are special taxes which apply uniformly to all taxpayers or all real property within the school district.
 - Rate determined without regard to a property's value
 - Exception: unimproved property may be taxed at a lower rate than improved property
- Authorized by Government Code section 50075 et seq. and Article XIII A of the California Constitution, Section 1(a)

General Obligation Bonds

- General obligation bonds are voter-approved long-term debt instruments which are secured by the legal obligation to levy and collect *ad valorem* property taxes sufficient to pay annual debt service on the bonds.

General Obligation Bonds

- Article XIII A, Section 1 and Article XVI, Section 18 of the California Constitution provide the constitutional basis for the issuance of GO Bonds and Education Code section 15000 et seq. provide the statutory authority for the issuance of general obligation bonds by a school district.



General Obligation Bonds

- GO Bonds provide the lowest borrowing cost to the school district because they are secured by the taxing power of the school district and are therefore considered to pose the lowest risk to investors.



General Obligation Bonds

- GO Bonds were available prior to 1978, but were eliminated by Proposition 13.
- Proposition 46 reinstated GO Bonds after 1986 and in 2000 Proposition 39 amended the California Constitution to allow the levy of *ad valorem* taxes in excess of the one percent (1%) limit to pay debt service on bonds issued for school construction with the approval of 55% of the votes cast.

General Obligation Bonds

- Now, school districts have two options for getting voter approval
 - 2/3 GO Bonds (Proposition 46 Bonds)
 - 55% GO Bonds (Proposition 39 Bonds)

Parcel Taxes

- Requirements and Characteristics

- Requires approval by 2/3 of the voters

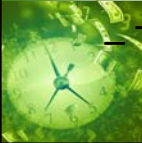
- SCA 6 Proposed reduction to 55%

- The law does not establish a maximum tax rate.

- (Exemption: taxpayers over the age of 65)

- The law does not specify the length of a term for the taxes.

- The law does not impose debt limitations.



Parcel Taxes

- Authorized Uses

- The use must be for a specific or special governmental project or program.

- A statement regarding the specific purpose of the special tax must be included in the ballot measure and the bond proceeds must be used for the specific purposes identified.

- Grants greatest flexibility of use ranging from facility improvement to operational use.



Parcel Taxes

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- Examples of Purposes for which some school districts have used funds from parcel taxes:

- Academic enrichment programs
- Recruiting and retaining high staff (i.e., teacher salaries)
- Educational materials
- Computer and technology equipment
- Facility improvements



2/3 GO Bonds

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- Requirements and Characteristics

- Require 2/3 voter approval
- The law does not establish a maximum tax rate.
- Total amount of outstanding and new general obligation bond debt to be issued may not exceed 2.5% of the assessed value of taxable property within a unified school district; the limit for elementary and high school districts is 1.25%.



2/3 GO Bonds

- Authorized Uses

The bond measure does not require a specific list of project that will be funded, but proceeds may only be used to finance “the acquisition or improvement of real property”, including:

- Acquisition of land
- Construction or acquisition of school buildings and facilities
- Expansion, restoration, remodeling or improvement of school facilities other than as may be necessary for current maintenance, operations, or repairs

2/3 GO Bonds

- Authorized Uses- Cont.

- Permanent improvement of school grounds
- Repairing, restoring, or rebuilding school buildings damaged, injured, or destroyed by fire or other public calamity
- Supplying school buildings and grounds with furniture, equipment, or necessary apparatus of a permanent nature affixed to real property and treated as real property for legal purposes

2/3 GO Bonds

- Impermissible Uses

- Education Code section 15100 provisions authorizes the financing of furniture, equipment and school buses

- Equipment must be affixed to real property and be treated as real property
- Education Code never amended after Proposition 13 to conform to constitutional limitations



2/3 GO Bonds

- GO Bonds may not be used to finance ordinary operation or maintenance expenses, but they may finance

- labor costs, professional fees, and other costs directly connected to real property acquisition and improvement

- deferred maintenance expenses, but only for projects which involve replacement of major building systems or components

(i.e., improvement to real property)



Proposition 39 Bonds

• Requirements and Characteristics

- Require a 55% favorable vote
- Bond measure must include specific project list
- Total amount of outstanding and new general obligation bond debt to be issued may not exceed 2.5% of the assessed value of taxable property within a unified school district; the limit for elementary and high school districts is 1.25%.
- The tax rate as the result of any single election must be projected to be no more than \$60 per \$100,000 of assessed valuation in a unified school district, and \$30 per \$100,000 of assessed valuation in an elementary or high school district.



Proposition 39 Bonds

• Authorized Uses

- The bond proceeds may only be used for
- construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities
 - acquisition or lease of real property for school facilities



Proposition 39 Bonds

- Authorized Uses

- Deferred maintenance items related to the reconstruction, rehabilitation or replacement of school facilities.
- Salaries of district employees if they perform administrative oversight work on construction projects authorized by a voter-approved bond measure (87 Cal. Ops. Atty. Gen. 157)



Proposition 39 Bonds

- Factors to consider to determine if funds may be used for furnishing or equipment

- Useful life
- Cost
- Relationship to the facilities
- Relationship to the educational program



Proposition 39 Bonds

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- Equipment or Supplies?

- Does the item lose its original shape and appearance with use?
- Is it consumable, with a normal service life of less than one year?
- Is it easily broken, damaged, or lost in normal use?
- Is it usually more feasible to replace it with an entirely new unit than to repair it?



Proposition 39 Bonds

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- Equipment or Supplies?

- Is the cost of the item below the LEA's capitalization threshold?

If all the answers are no, the item should be classified as capital outlay.



Proposition 39 Bonds

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- What furnishing or equipment may be funded?
 - Proposition 39 does not specify
 - Guidance from the Education Code
 - Section 19962 – Furnishings must have an estimated useful life of not less than 10 years



Proposition 39 Bonds

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- Guidance from the Education Code
 - Section 19989 – Allows funding for procurement or installation, or both, of furnishings and equipment required to make a facility fully operable, if the procurement or installation is part of a construction or remodeling project funded by Section 19989.



Proposition 39 Bonds

– Guidance from the Education Code

- Section 17072.35 – Allows funding for equipment, including telecommunication equipment, to increase school security, furnishings, and the upgrading of electrical systems or the wiring or cabling of classrooms in order to accommodate educational technology.



Summary Table

	Parcel Taxes	2/3 GO Bonds	Proposition 39 Bonds
 Voter Approval	2/3 favorable vote	2/3 favorable vote	55% favorable vote
 Authorized Uses	No statutory limit on what it may fund, but must be a specific or special governmental project or program. Bond proceeds must be used for the specific purposes identified in the ballot measure.	Land acquisition Purchase or construction of new school facilities Renovation and repair of existing school buildings Permanent improvements to school grounds	Land acquisition Purchase or construction of new school facilities Renovation and repair of existing school buildings Permanent improvements to school grounds Furnishing and equipping of school facilities Lease of real property for school facilities
 Prohibited Uses		Teacher/administrator salaries or operating expenses	Teacher/administrator salaries or operating expenses
 Specific Project List	A statement regarding the specific purpose of the special tax must be included in the ballot measure.	Not required	Required
 Tax Rate	No tax rate limitation	No tax rate limitation	\$30 per \$100,000 of assessed value for elementary and high school districts \$60 per \$100,000 of assessed value for unified school districts
 Limit of bonds sold in any fiscal year	No limit	1.25% of Assessed Value for elementary and high school districts 2.50% of Assessed Value for unified school districts	1.25% of Assessed Value for elementary and high school districts 2.50% of Assessed Value for unified school districts

Questions?

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