General Obligation Bond Workshop

April 3, 2013
Tonight’s Agenda

- Background
- Bond Project Implementation Plan
- Bond Issuance
- Board Responsibilities
- Citizens’ Oversight Committee Responsibilities
- Next Steps
Background
Measures Q & R Approved in November 2012

• Measure Q
  ▪ $346 Million

• Measure R
  ▪ $68 Million

> Estimated tax rate of $54 per $100,000 of assessed value
Measure Q Projects

• Transformation of 8 secondary schools
  ▪ Upgrading classrooms, science labs, computer systems and technology
  ▪ Renovating heating and ventilation systems
  ▪ Removal of asbestos and lead paint
  ▪ Improving student safety and security systems
  ▪ Repairing roofs, restrooms, floors and plumbing
Measure R Projects

• Upgrading of central kitchen facilities to improve children’s nutrition
• Repair of playgrounds and playfields to meet modern safety standards
• Improvement of PE facilities and restrooms
• Removal of asbestos and lead paint
• NTD-Cumming team will collaborate with Bond Steering Committee: District Staff, M&O, Shop & Union Representation, Parents, Community & Business Partners

• Outcome: Bond Project Implementation Plan to align with funding

• Quick-Strike Projects for this summer
Tasks to Complete

Task 1: Review Project List & Establish Implementation Goals & Expectations

Task 2: Establish Implementation Concepts

Task 3: Test Implementation Concepts

Task 4: Optimize Implementation Concepts

Task 5: Finalize Implementation Plan
Implementation Timeline

April
- Task 1: Establish Implementation Goals/Expectations

April
- Task 2: Establish Implementation Concepts

May
- Task 3: Test Implementation Concepts
  * Quick Strike Projects

May
- Task 4: Optimize Implementation Concepts

June
- Task 5: Adopt Bond Project Implementation Concept
Bond Issuance
Basics of Bonds

• A bond is a loan
  ▪ Simply evidence of a debt
    • Like a mortgage is evidence of the obligation to repay a home loan
The Players in a Bond Financing

- Financial Advisor
- County
- Underwriter
- Bond Insurer
- Rating Agency
- Disclosure Counsel
GO Bonds

A loan issued by a school district and repaid from an ad valorem tax on property

Voter approved bond
- Traditionally requires a 2/3 vote
- Schools can authorize with 55% approval under Prop. 39

Bond proceeds must be spent on real property
- Land, buildings, permanent improvements
- Furniture and equipment permitted under Prop. 39
Once approved by the voters, taxes are imposed based on annual debt service from bonds issued

- Repaid from a tax on all assessed value ("AV") in a district’s boundaries

Tax Rates Per $100,000 of AV =
Bond Debt Service / AV * $100,000
GO Bonds and Tax Rate Limitations

- Prop. 39 created tax rate limitations:
  - Per bond measure
  - Based on reasonable assumptions at the time of bond issuance

### Proposition 39 Tax Rate Limitations

<table>
<thead>
<tr>
<th>Type of District</th>
<th>Tax Rate Limit (Per $100,000 of AV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union School District</td>
<td>$30</td>
</tr>
<tr>
<td>Unified School District</td>
<td>$60</td>
</tr>
<tr>
<td>Community College District</td>
<td>$25</td>
</tr>
</tbody>
</table>
Factors Impacting Bond Issuance

• Declining assessed value has led to limitations in the amount of bonds a district can issue.
• Heightened scrutiny on school bonds regarding bond term and interest payment method.
Interest Payment Methods

Current Interest Bonds ("CIBs")

- Bonds with principal and interest repaid over the life of the bonds

Capital Appreciation Bonds ("CABs")

- Bonds with principal and interest postponed until a later date
- Typically more expensive than the traditional current interest bonds

Note: The Measures Q & R bond plans do not include CABs.
Issuance of Bonds

- The bond issuance plan should reflect the District’s project implementation plan . . .
  - Timing
  - Amount
  - Repayment stream vs. useful life
- . . . as well as Board policy goals
  - Bond issuance parameters
Relevant Bond Law
Relevant State Law

- May mature up to 40 years from issuance
- Must be sold by County Board of Supervisors
  - Districts with a “qualified” or “negative” fiscal year budget cannot sell bonds directly; bonds must be sold on behalf of district by the County Board of Supervisors
  - Negotiated (private) and competitive (public) sales are allowed
- Any premium received from the sale of the bonds must be deposited to the debt service fund
Relevant Federal Tax Law

• Interest payments on the bonds may be paid from the proceeds of the bonds for up to 3 years

• Spend-down expectation at closing
  ▪ Tax law requires that the district reasonably expect to spend at least 85% of the proceeds of the bonds within 3 years
    • Exception from this rule if proceeds invested in other tax-exempt bonds
• Spend-down rules after closing
  ▪ Tax law requires that all proceeds of the bonds be spent within 5 years of issuance
    • Or certain remedial actions apply
  ▪ Exception from this rule if bonds no longer outstanding
• Useful life of assets related to bond term
  ▪ Tax law requires that the average life of the bonds be no more than 1.2 times the average useful life of the assets financed with proceeds of the bonds
  ▪ Average life of bonds determined by timing of principal payments
  ▪ Average useful life of financed assets is blended for each separate bond issue
Sacramento City USD’s GO Bonds
District’s Bond Measures Since 1999

**Measure E**
1999 (2/3 Measure)
- Authorized $195 million
- All bonds issued

**Measure I**
2002 (55% Measure)
- Authorized $225 million
- All bonds issued

**Measure Q**
2012 (55% Measure)
- Authorized $346 million
- No bonds issued

**Measure R**
2012 (55% Measure)
- Authorized $68 million
- No bonds issued
## Summary of District's Measures E & I Bonds

<table>
<thead>
<tr>
<th>Measure</th>
<th>Issuance</th>
<th>Par Amount of Bonds</th>
<th>Cumulative Repayment</th>
<th>Notes</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Measure E - 1999</strong></td>
<td>Series A - March 2000</td>
<td>$50,000,000</td>
<td>$0</td>
<td>Completely refinanced in 2001</td>
<td>Completely refinanced in 2001</td>
</tr>
<tr>
<td></td>
<td>Series B - April 2001</td>
<td>$45,000,000</td>
<td>$30,110,772</td>
<td>Remainder of bonds refinanced in 2011 and 2012</td>
<td>Remainder of bonds refinanced in 2011 and 2012</td>
</tr>
<tr>
<td></td>
<td>Series C - May 2002</td>
<td>$45,000,000</td>
<td>$26,821,004</td>
<td>Remainder of bonds refinanced in 2011 and 2012</td>
<td>Remainder of bonds refinanced in 2011 and 2012</td>
</tr>
<tr>
<td></td>
<td>Series D - August 2004</td>
<td>$55,000,000</td>
<td>$27,070,842</td>
<td>Remainder of bonds refinanced in 2012</td>
<td>Remainder of bonds refinanced in 2012</td>
</tr>
<tr>
<td><strong>Measure I - 2002</strong></td>
<td>Series A - March 2003</td>
<td>$80,000,000</td>
<td>$60,642,483</td>
<td>Remainder of bonds refinanced in 2012</td>
<td>Remainder of bonds refinanced in 2012</td>
</tr>
<tr>
<td></td>
<td>Series B - July 2005</td>
<td>$80,000,000</td>
<td>$149,769,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Series C - Nov. 2007</td>
<td>$64,997,966</td>
<td>$120,052,342</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Refundings</strong></td>
<td>Series 2001</td>
<td>$52,310,000</td>
<td>$35,253,318</td>
<td>Remainder of bonds refinanced in 2011 and 2012</td>
<td>Remainder of bonds refinanced in 2011 and 2012</td>
</tr>
<tr>
<td></td>
<td>Series 2012</td>
<td>$113,245,000</td>
<td>$172,431,578</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Original Issuances</strong></td>
<td></td>
<td>$419,997,966</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cumulative Repayment</strong></td>
<td></td>
<td>$739,108,107</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Note: When a refinancing occurs, the remaining outstanding principal of the original bond issuance is replaced by the refunding bond. Therefore, the total original issuances differ from the total par amount of the bonds issued.
Combined Debt Service on the District’s Outstanding Measure E & I Bonds Remains Relatively Level Throughout the Remaining 19 Year Term. This Means that as District-wide Assessed Value Increases, Tax Rates will Proportionately Decline.

2012-13 Tax Rates of $99.90 per $100,000 of assessed value support the 2012-13 total debt service.

- Series 2012 Refunding Bonds
- Series 2011 Refunding Bonds
- Measure I - Series 2007
- Measure I - Series 2005
Issuing Measures Q & R Bonds
When to Issue and How Much

• Project expenditure schedule should dictate the amount of bonds issued.
  ▪ Don’t want to issue bonds too early, resulting in unnecessary interest carrying costs
  ▪ Typically, recommend a bond sizing based on funds required over 2 years.

• Will want to consider community expectations and needs.

• Useful life of projects will impact bond repayment timing
Key Bond Issuance Assumptions

- Assessed Value
- Bond Interest Rates
- Legal Bonding Capacity
- Tax Rate Limitations
Assessed Value ("AV")

- Tax rates are a function of bond debt service and AV
  - The past few years have had declining AV
- Developing assumptions for future AV growth is key to determining the amount and timing of bonds that can be issued
- Assumptions for future AV growth should be based on an understanding of the current tax base demographics.
Over the Past 25 Years, Assessed Value In the District has Grown by an Annual Average of 4.14%, With Secured Assessed Value Increasing by an Annual Average of 3.63%. However, Since 2008-09, Assessed Value has Steadily Declined

From 1992 Through 2002, Secured Assessed Value Growth Averaged 2.42% Per Year

Fiscal Year Ending

$0

$5,000,000,000

$10,000,000,000

$15,000,000,000

$20,000,000,000

$25,000,000,000

$30,000,000,000

1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
Total Assessed Value
## Developing Bond Plan Assumptions

<table>
<thead>
<tr>
<th>Preliminary Bond Plan Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.00% - Annual Increase in Net Local Secured A.V. for 2013-14</td>
</tr>
<tr>
<td>1.00% - Annual Increase in Net Local Secured A.V. for 2014-15</td>
</tr>
<tr>
<td>2.00% - Annual Increase in Net Local Secured A.V. after 2014-15</td>
</tr>
<tr>
<td>(average is 3.63% over past 22 years, with a low of -5.06% in 2009-10)</td>
</tr>
<tr>
<td>0.00% - Annual Increase in All Other A.V.</td>
</tr>
<tr>
<td>0.00% - Assumed Deliquency Rate on Secured Property (Teeter Plan)</td>
</tr>
<tr>
<td>5.00% - Assumed Deliquency Rate on Unsecured Property</td>
</tr>
<tr>
<td>$44  - Maximum Annual Tax Levy Per $100,000 of Assessed Value for Measure Q</td>
</tr>
<tr>
<td>$10  - Maximum Annual Tax Levy Per $100,000 of Assessed Value for Measure R</td>
</tr>
</tbody>
</table>

- **Ultimately, the District must “own” the assumptions**
Bond Interest Rates and Bonding Capacity

• Interest Rates
  ▪ There is uncertainty of what rates will be in the future
    • At historic lows
  ▪ Can utilize subsidized financing to obtain below market interest rates (QSCBs)

• Bonding Capacity
  ▪ A unified school district is limited to have total bonds outstanding of 2.5% of its AV
    • Bonding capacity is currently approx. $612 million, with approx. $318 million of bonds outstanding from the original $420 million issued under Measures E & I
• The Tax Rate Statement submitted to the voters when Measures Q and R were considered provided tax rate estimates (not legally binding)
  ▪ $54 per $100,000 of AV
    • This will be a limiting factor in determining how much in bonds can be issued
For the preliminary bond plan, we have assumed 25 year, current interest bonds
- Using the a.v. assumptions previously described
Suggested Approach to Issuing Measures Q & R Bonds

• Evaluate construction expenditure needs over a 2 year period
• Determine whether the amount of bonds needed to fund expenditures can be issued using conservative bond assumptions
  ▪ *If assumptions are too aggressive, the result is higher than expected tax rates*
• Implement construction expenditure plan based on ability to issue bonds
• Re-evaluate bond plan annually
  ▪ Iterative process
**EXAMPLE Measure Q Bond Issuance Summary**

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Issuance Year</th>
<th>Current Interest Bonds</th>
<th>Capital Appreciation Bonds</th>
<th>Total Bond Issuances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A - Short Term</td>
<td>2013</td>
<td>$20,000,000</td>
<td>0</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>Series B</td>
<td>2015</td>
<td>$75,000,000</td>
<td>0</td>
<td>$75,000,000</td>
</tr>
<tr>
<td>Series C</td>
<td>2017</td>
<td>$75,000,000</td>
<td>0</td>
<td>$75,000,000</td>
</tr>
<tr>
<td>Series D</td>
<td>2019</td>
<td>$75,000,000</td>
<td>0</td>
<td>$75,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$245,000,000</strong></td>
<td><strong>$0</strong></td>
<td><strong>$0</strong></td>
<td><strong>$245,000,000</strong></td>
</tr>
</tbody>
</table>

* Numbers provided as an example only. They will change based on bond implementation plan and market conditions.

**EXAMPLE Measure R Bond Issuance Summary**

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Issuance Year</th>
<th>Current Interest Bonds</th>
<th>Capital Appreciation Bonds</th>
<th>Total Bond Issuances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A - QSCB</td>
<td>2013</td>
<td>$40,000,000</td>
<td>0</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>Series B</td>
<td>2013</td>
<td>$17,500,000</td>
<td>0</td>
<td>$17,500,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$57,500,000</strong></td>
<td><strong>$0</strong></td>
<td><strong>$0</strong></td>
<td><strong>$57,500,000</strong></td>
</tr>
</tbody>
</table>

* Numbers provided as an example only. They will change based on bond implementation plan and market conditions.
EXAMPLE Bond Issuance: The District Could Issue Approximately $245 Million of Measure Q and $57.5 Million of Measure R, While Maintaining the Tax Rate Promise of $54 Per $100,000 of Assessed Value, Based on Conservative Assessed Value Growth Projections.
EXAMPLE Bond Issuance: Debt Service on the 4 Series of Measure Q and 2 Series of Measure R Bonds Would Be Structured to Escalate Based on the Projected Growth in Assessed Value to Maximize Tax Rates at $54 per $100,000 of Assessed Value

Principal repayment is postponed, using Current Interest Bonds, to create a sloped debt repayment structure to meet projected increases in assessed value.
Comments on Actual Bond Issuance Plan

• Bond issuance scenarios are provided to give an idea of the bond issuance limitations
  ▪ Alternatives exist based on bond implementation plan, assumptions used and Board policy decisions

• Numbers provided as an example only. They will change based on bond implementation plan and market conditions.
Board Responsibilities
Policy Considerations

• Board policy on use of Capital Appreciation Bonds (CABs)
  ▪ AB 182 (Buchannan/Hueso) proposes:
    • Limiting all school bonds to 25 years
    • 4:1 repayment ratio
    • New disclosure and redemption requirements for CABs
More Comments on CABs

• State Treasurer & State Superintendent letter:
  ▪ “we urge [school boards] not to issue CABs until the Legislature and the Governor have completed their consideration of this year’s proposals to reform the CAB issuance process...”
Board Direction

• Capital Project prioritization
  ▪ Basis for how much to issue from each measure
  ▪ Staff is developing a process to come back to the Board with a proposed plan

• Bond issuance parameters
  ▪ Bond term
  ▪ Bond structure
  ▪ Use of CABs
    • Recommend no use of CABs
  ▪ Other?
Board Updates

- Staff will report quarterly on status of Bond Program
- Each new bond issuance will require Board approval
Citizens’ Oversight Committee Responsibilities
Specific Responsibilities

• Inform the public concerning the District’s expenditure of bond proceeds
• Review expenditure reports produced by the District to ensure:
  ▪ Bond proceeds are expended only for the purpose set forth in the ballot measure
  ▪ No bond proceeds are used for any teacher or administrative salaries or other operating expenses
Annual Report

• Present to the Board, in public session an annual written report which shall contain the following:
  ▪ A statement whether the District is in compliance with the requirements of Article XllIA, Section 1(b)(3) of the California Constitution
  ▪ A summary of the Committee’s proceedings and activities for the preceding year
Additional Work by the Committee

• The committee works with an independent auditor, conducts research and has scheduled site visits to guarantee their duties are fulfilled.
Bond Program Cycle

- **Bond Steering Committee – Bond Project Planning**
- **Citizens’ Oversight Committee – Review of Bond Project Expenditures**
- **Board of Education – Bond Project Approval and Policy Development**
- **District Staff – Bond Program Implementation**
Next Steps
Schedule of Next Steps

- **May:**
  - Initiate Quick Strike Projects

- **April – May:**
  - District staff and Financing Team prepare bond issuance plan and necessary legal documents
    - Includes Board review and subsequent consideration of approval of bond documents

- **June:**
  - District to finalize Bond Implementation Plan

- **Late May – Early June:**
  - Sale of Measures Q & R bonds

- **Late June:**
  - Bond Closing
Questions?