



Sacramento County Office 101 1D

General Obligation Bond Workshop

April 3, 2013



Background



Measures Q & R Approved in November 2012

- Measure Q
f\$346 Million
- Measure R
f\$68 Million
- ³/₄ Estimated tax rate of \$54 per
\$100,000 of assessed value



Measure Q Projects

- Transformation of 8 secondary schools
 - f* Upgrading classrooms, science labs, computer systems and technology
 - f* Renovating heating and ventilation systems
 - f* Removal of



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



Bond Project Implementation Plan



- 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

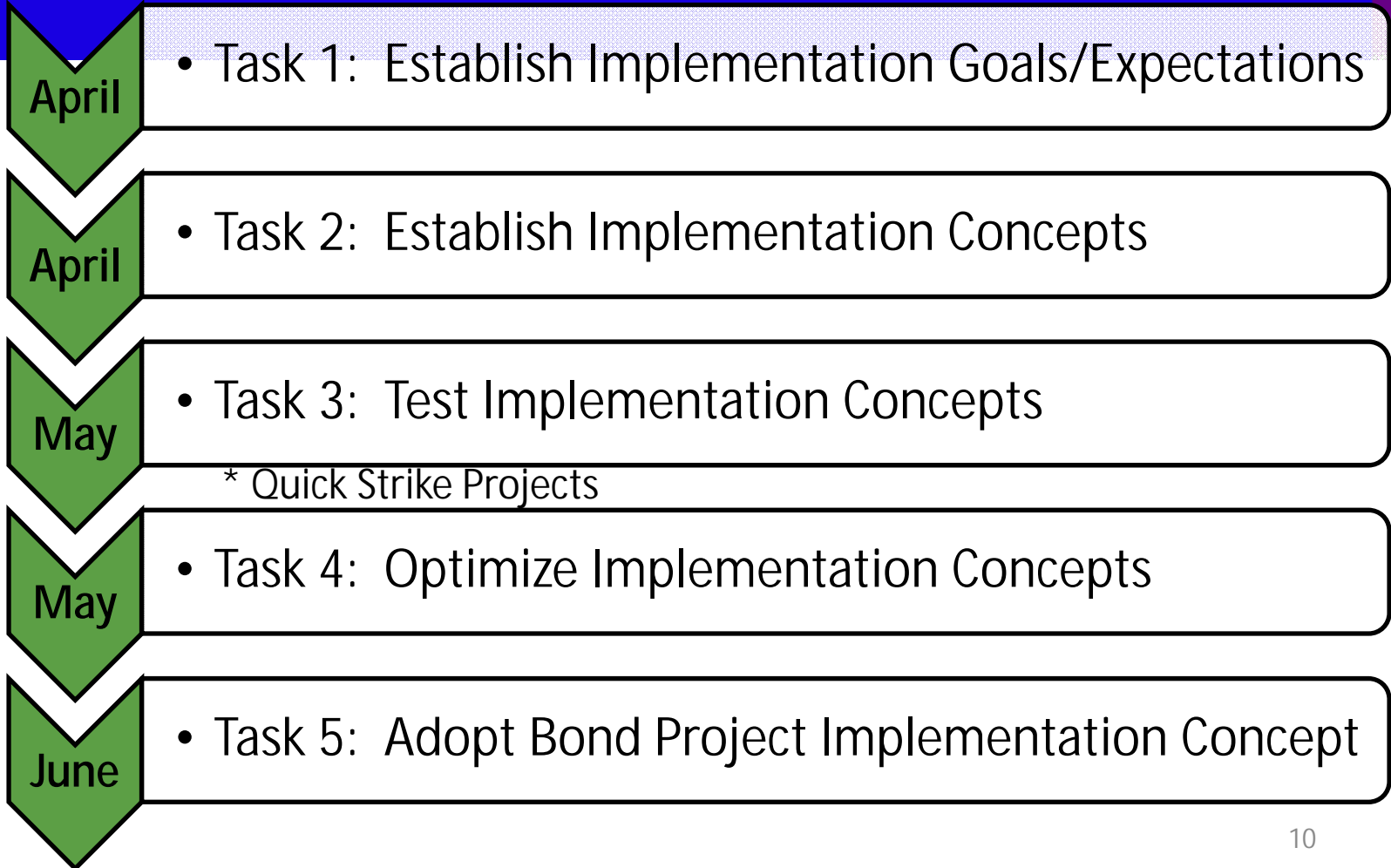


Tasks to Complete

- 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





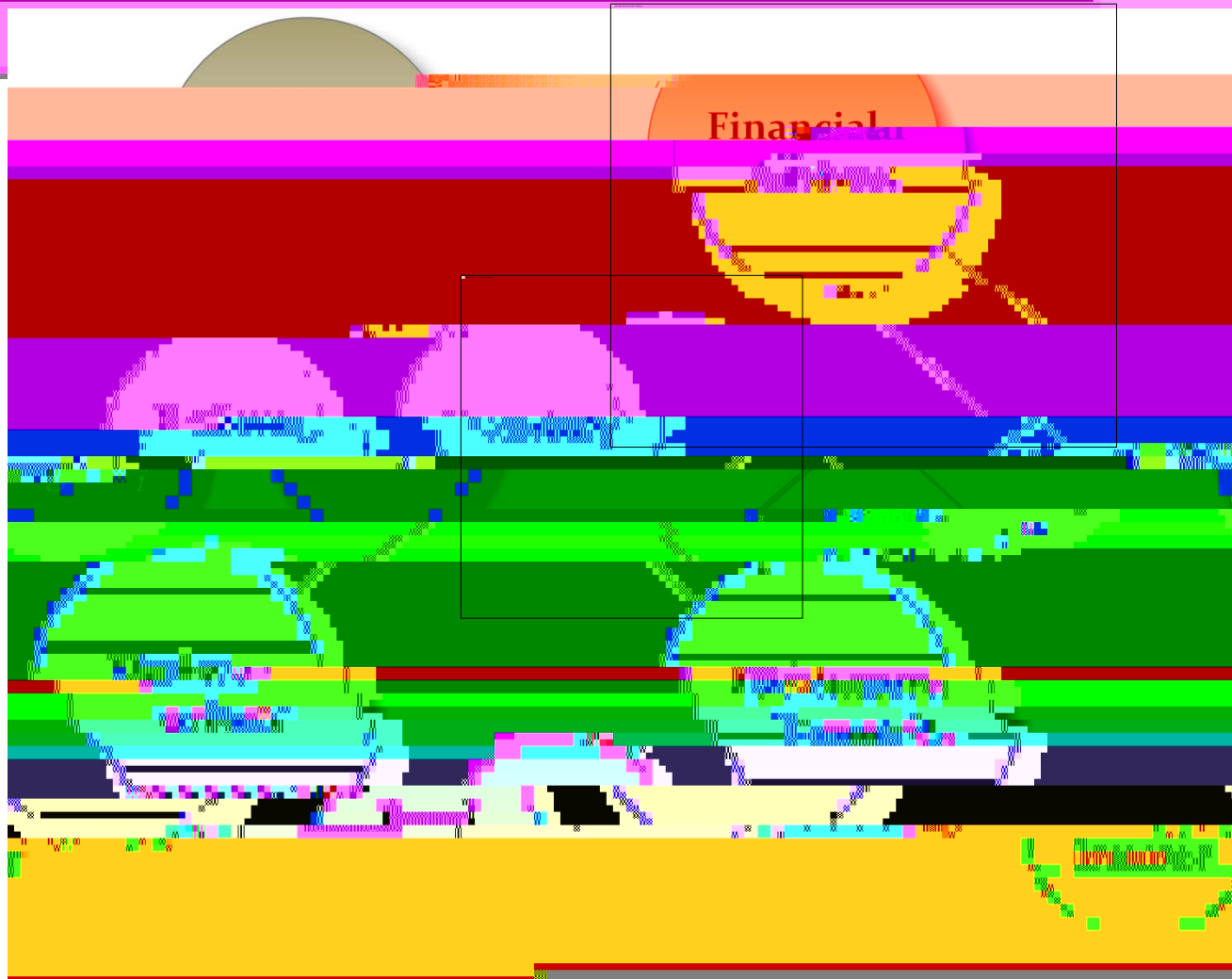
Bond Issuance



Basics of Bonds

- A bond is a loan
 - f* Simply evidence of a debt
 - Like a mortgage is evidence of the obligation to repay a home loan

The Players in a Bond Financing





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



11.1: The Cell

1





GO Bonds and Tax Rate Limitations

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

Proposition 39 Tax Rate Limitations	
Type of District	Tax Rate Limit (Per \$100,000 of AV)
Union School District	\$30
Unified School District	\$60
Community College District	\$25



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



Relevant Bond Law



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
 - f* 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



Relevant Federal Tax Law (Cont'd)

- Spend down rules after closing
 - f* Tax law requires that all proceeds of the bonds be spent within 5 years of issuance
 - Or certain remedial actions apply
 - f* Exception from this rule if bonds no longer outstanding



Relevant Federal Tax Law (Cont'd)

- Useful life of assets related to bond term
f Tax law requires that the average life of the bonds be no more than 1.2 times *as*



Sacramento City USD's 10 Year 1D's

Sacramento City USD's GO Bonds

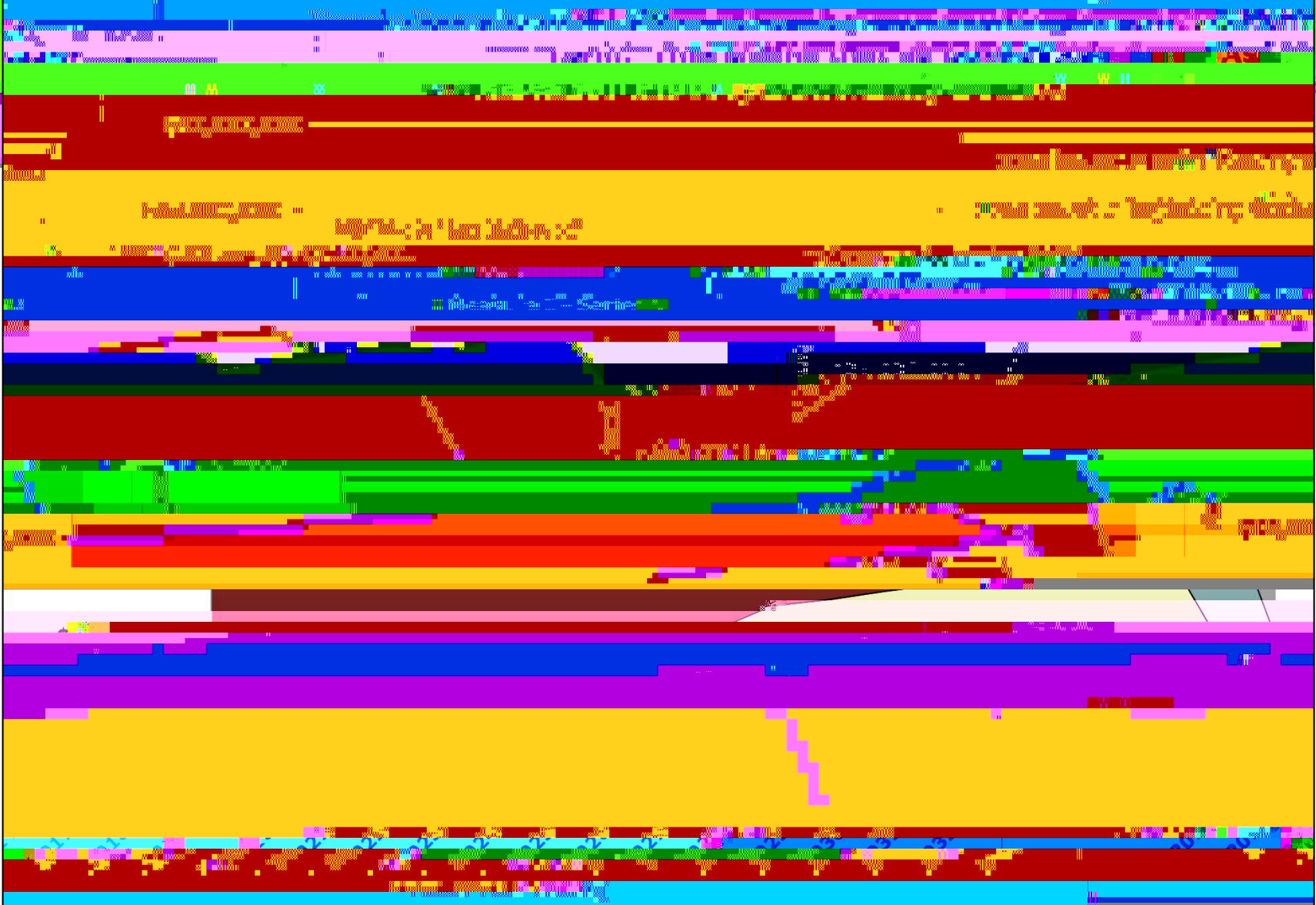


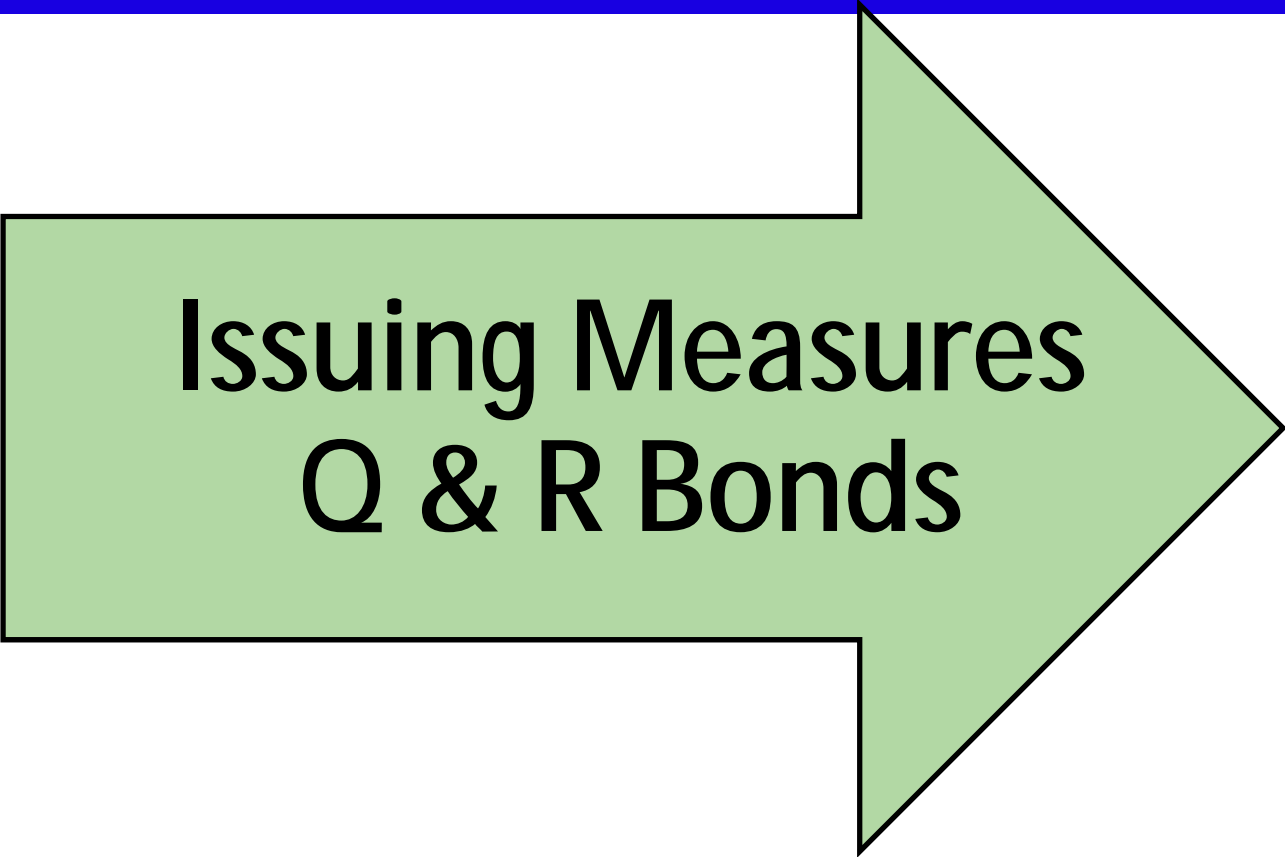
Sacramento City Unified School District

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Combined Debt Service from the Districts





Issuing Measures Q & R Bonds



When to Issue and How Much

- Project

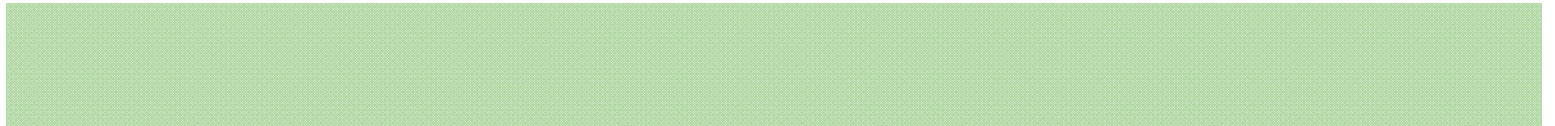


Key Bond Issuance Assumptions

Assessed Value

Bond Interest Rates

Legal Bonding Capacity

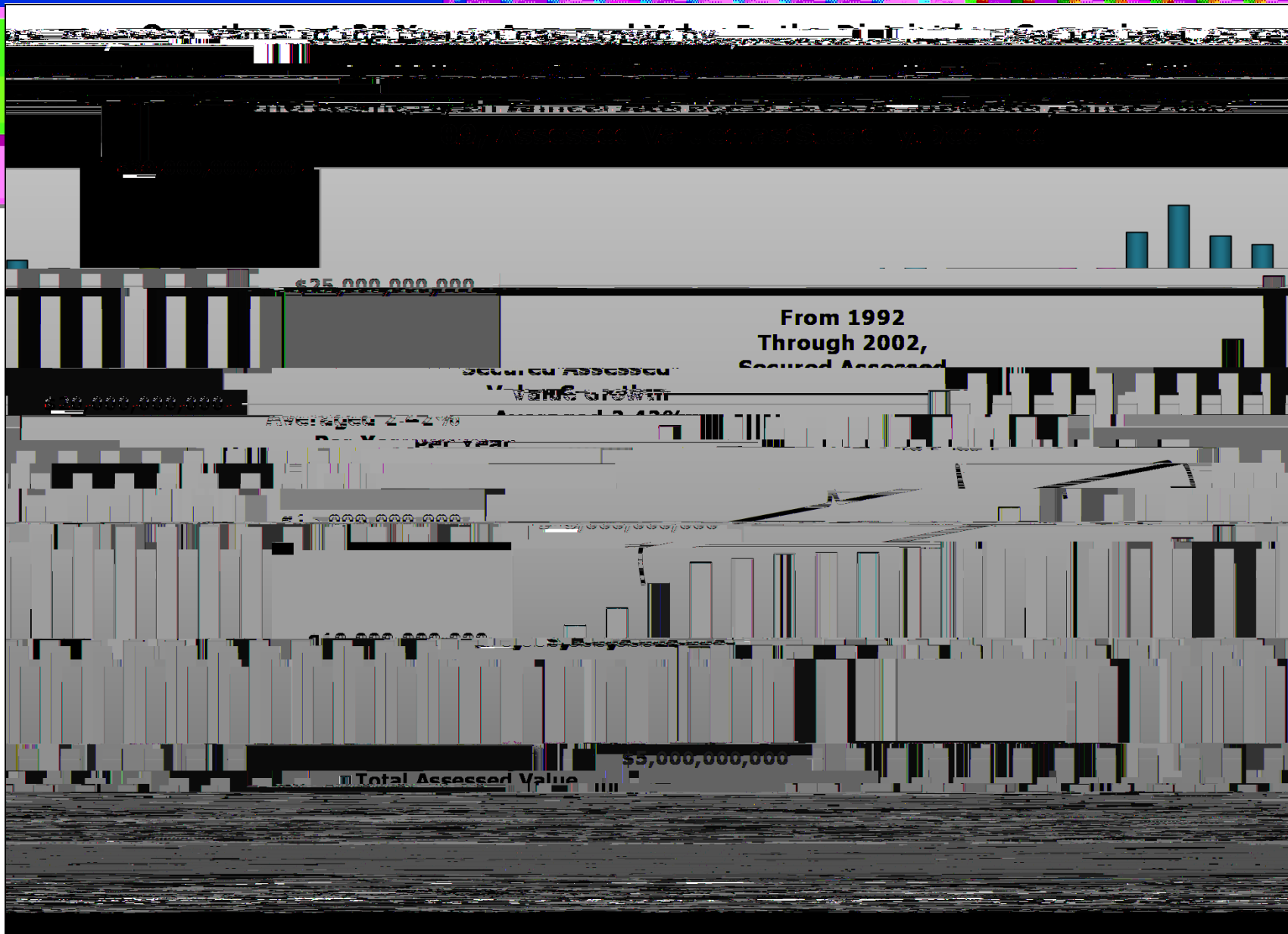




Assessed Value ("AV")

- Tax rates are a function of bond debt service and AV
 - f* The past few years have

Secured Assessments





Developing Bond Plan Assumptions

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

- Ultimately, the District must “own” the assumptions



Bond Interest Rates and Bonding Capacity

- Interest Rates

f There is uncertainty of what rates will be in the future

- At historic lows

f Can utilize subsidized financing to obtain below market interest rates (QSCBs)

- Bonding Capacity

f 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



Other Tax Rate Limitations

- The Tax Rate Statement submitted to the voters when Measures Q and R were considered provided tax rate estimates (not legally binding)
 - f*\$54 per \$100,000 of AV
 - This will be a limiting factor in determining how much in bonds can be issued



Issuance Parameters

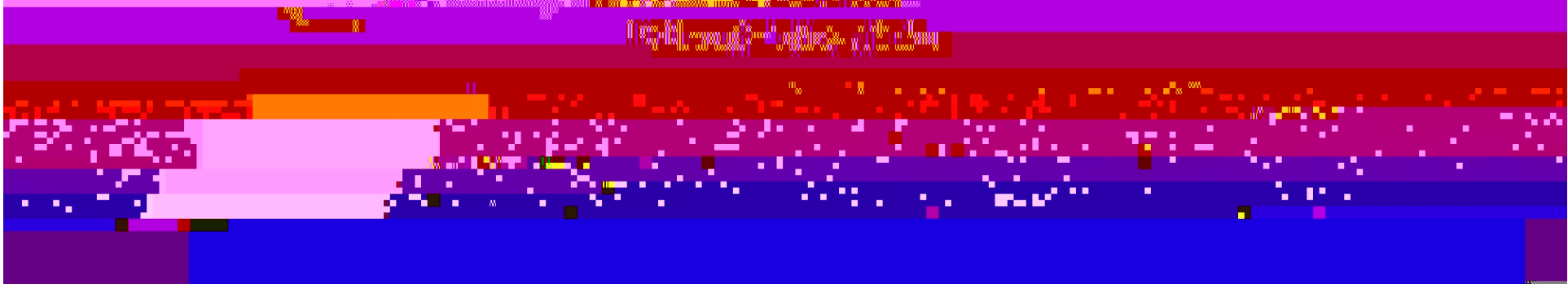
- 25 year vs. longer

³/₄ 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
 - f* 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
 - f* Iterative process



* Numbers provided as an example only.





Comments on Actual Bond Issuance Plan

- Bond issuance scenarios are provided to give an idea of the bond issuance limitations
 - f* 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)
 - *f*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:

f“we urge [schoolboards] not to issue CABs until the Legislature and the Governor have completed their consideration of this year’s proposal to reform the CAB issuance process...”



Board Direction

- Capital Project prioritization

- f* Basis for how much to issue from each measure

- f* Staff is developing a process to come back to the Board with a proposed plan

- Bond issuance parameters

- f* Bond term

- f* Bond structure

- f* Use of CABs

- Recommend no use of CABs

- f* 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:
 - f* Bond proceeds are expended only for the purpose set forth in the ballot measure
 - f* 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:
 - f*A statement whether the District is in compliance with the requirements of Article XIII A, Section 1(b)(3) of the California Constitution
 - f*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



Next Steps



Schedule of Next Steps

- May:
 - f* Initiate Quick Strike Projects
- April – May:
 - f* 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:
 - f* District to finalize Bond Implementation Plan
- Late May – Early June:
 - f* Sale of Measures Q & R bonds
- Late June:
 - f* Bond Closing



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Questions?

