West Contra Costa USD

2012-13 Tax Rate Setting Process, November 2012 Bond Election, and Current Topics

Presentation to the Facilities Subcommittee

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Objectives of the Presentation

- This afternoon's presentation is designed to cover three important developments that have occurred since the last meeting of the Facilities Subcommittee.
  - Meeting with the Board and County to discuss 2012-13 tax rates.
  - Decision by the Board to place a $360 million bond measure on the November 2012 ballot.
  - News articles regarding forty-year bonds, deferred debt service structures, and, specifically, long-dated capital appreciation bonds.

2012-13 Tax Rates

- The Board expressed its desire to establish tax rates at targeted levels for the 2000 Measure M authorization, the 2002 Measure D authorization, and the 2005 Measure J authorization.
  - Based on current assessed values, tax rates at or below targeted levels will be sufficient to pay current obligations on all five District bond programs.
  - By requesting that tax rates be set at targeted levels (and above required levels), the District will be able to establish something of a tax rate stabilization fund for each of these three programs.
  - Settlement monies from this past spring's Chevron appeal are expected to supplement such excesses this fall.
  - With such funds on hand and assuming no further declines in the District's tax base, tax rates on these three measures should be below targeted maximums through tax year 2013-14 (and possibly 2014-15).
  - The District's program received praise from the County Auditor-Controller in a recent newspaper story.

History of Tax Rates

- Once tax bills are distributed this fall, tax levies for District bond programs will have been below targeted maximums on forty-six of forty-six occasions since tax year 1998-99.

	1998 Measure E	2000 Measure M	2002 Measure D	2005 Measure J	2010 Measure D
Target Tax Rate	$26.40	$55.60	$60.00	$60.00	$48.00
Expected 2012-13 Tax Rate	$12.50	$55.60	$60.00	$60.00	$38.00
Type of Election	Two-Thirds	Two-Thirds	Prop. 39	Prop. 39	Prop. 39

November Bond Measure

- On August 1, 2012, the District Board of Education voted to place a $360 million bond measure on the November 2012 ballot.

Bond Program Summary	
Amount of Authorization:	$360 million.
Term of Capital Program:	Improvements to be over 12 years.
Schedule of Bond Sales:	In modeling the 2012 bond measure, we assumed five bond issuances in alternating years beginning in 2013 through 2021.
Repayment Structure:	Our preliminary model has each series repaid over 30 years from issuance, with overall program repayment escalating approximately 4% annually.
Tax Rate Targets:	Estimated at a maximum $48 per $100,000 assessed value.
Tax Base Growth:	It is assumed that tax rate growth at or above 4% will allow for the issuance of bonds within target tax rates.
Interest Rates:	Assumed 5.75% for each series of bonds sold.

Special Features

- The ballot language for the bond measure contained reference to two specific features designed to increase the District's flexibility to implement the bond program as a whole to meet community desires.
    - Bonding capacity waiver – the District will need to achieve a bonding capacity waiver prior to issuing any bonds under the new measure.
    - Tax rate stabilization – the ballot language specifically authorizes the use of bond proceeds under the new measure to refund, defease, or otherwise repay bonds issued under prior authorizations.
    - The purpose of including these items in the ballot language is to increase transparency and to ensure community buy-in on two features of the bond program that might be controversial to some audiences.

Potential Criticisms

- The new bond measure will be open to criticism from some members of the community and outside observers.
  - The District has a lot of bonds outstanding relative to the size of its tax base.
  - Local tax rates for general obligation bonds are already higher than for any other school district in the State (and taxes on this measure will be added on to tax rates for previous bond measures).
  - The new measure continues to be structured around deferred debt service, with projections calling for 4% escalation in payments over time.
  - Given the term of the program, uncertainty with regard to District priorities and project costs, and the likelihood of emerging facility needs, it is possible that facility needs will remain after all of the new bond proceeds are expended.

Increased Scrutiny

- School district bond programs have become subject to increased scrutiny in recent years.
  - The combination of increasingly large bond measures, Proposition 39 tax rate limitations, and (in recent years) declining tax bases, has led to increasingly constrained bond programs.
  - School districts have typically responded to these constraints by slowing bond issuance, deferring more debt service, and allowing tax rates to "float" above targeted maximums.
  - These and other practices have caught the attention of County Treasurers among others.
  - In particular, the use of long-dated Capital Appreciation Bonds (CABs) has gained attention from the national press.

Articles on Poway USD Financing

- Last week, there were a number of articles published on a general obligation bond financing by Poway USD in San Diego County. A number of aspects of the financing was criticized in the article.
  - Using long-dated capital appreciation bonds (CABs) that defer the payment of debt service until future years: "Shifting the burden for paying for today's school construction to future generations of Californians."
  - Assuming tax base growth in the future: "If the district's projections don't come true, homeowners will see their taxes spike to make up the difference."
  - Bonds are issued as non-callable bonds: "The loan contains a provision strictly barring the district from refinancing its debt."
  - Lack of information in the ballot statement about the overall cost of the bond issuances.

Bonds Outstanding to Repayment Ratio

- The ratio of bonds outstanding to repayment for District bonds is reasonable.

	Amount Outstanding[2]	Payments Remaining[1],[2]	Ratio
1998 Measure E	$26,795,000	$38,458,488.50	1.44
2000 Measure M	$88,755,000	$135,525,037.50	1.53
2002 Measure D	$214,072,284	$512,756,997.50	2.40
2005 Measure J	$319,359,709	$734,007,438.14	2.30
2010 Measure D	$100,000,000	$190,834,802.92	1.91

(1) Analysis might be expanded to include present value (PV) payments remaining and PV ration.

(2) Amounts outstanding and payments remaining are as of June 30, 2011.

General Response to Scrutiny

- School districts should also be focused on broadening the conversation around bond financing on larger issues.
  - Evaluating bond programs in aggregate rather than looking at individual components.
  - Focusing on critical need for school facilities improvement.
  - Highlighting equity issues around school facilities financing (Prop 39 tax rate targets and bonding capacity limit borrowing amounts by tax base value).
  - Improving transparency and communication with Board and community members.

Appendix