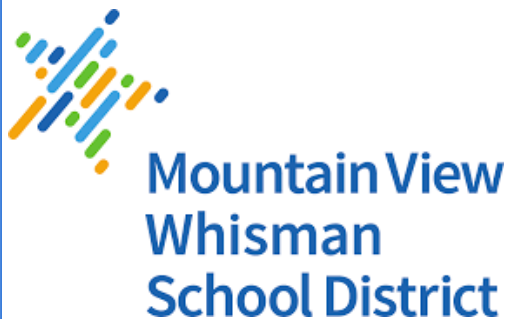


October 22, 2019

# Mountain View Whisman School District

Overview of Funding Options & Potential 2020 Bond Measure



# Table of Contents

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## **Section**

- I. General Obligation Bonds
- II. School Facilities Improvement District Bonds
- III. Mello-Roos Bonds
- IV. Certificates of Participation



# Section I

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## General Obligation Bonds

# General Obligation Bonds Overview

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A general obligation bond is a common method of debt financing used by California school districts to generate capital project funds

- ◆ Lowest borrowing cost of any debt financing technique available to school districts
- ◆ Repayment (principal and interest) is made from taxes levied on assessed value of properties within school district boundaries
- ◆ Repayment of bonds does not encroach on district general fund
- ◆ Requires approval of district's registered voters
  - Bond authorization amount
  - Project list
  - Estimated tax rate



# Types of General Obligation Bond Elections

## Proposition 46

## Proposition 39

	Proposition 46	Proposition 39
Voter Approval Threshold	◆ Two-thirds	◆ 55%
Annual Tax Rate Limits per \$100,000 of AV	◆ None	<ul style="list-style-type: none"> <li>◆ \$60 for unified school districts</li> <li>◆ <b>\$30 for elementary and high school districts</b></li> <li>◆ \$25 for community college districts</li> </ul>
Board Approval Threshold	◆ Simple majority of members present	◆ Two-thirds of total members
Election Dates	◆ Any Tuesday	<ul style="list-style-type: none"> <li>◆ Statewide primary, general, special, or regularly scheduled local elections</li> <li>◆ In 2020: March 3 &amp; November 3</li> </ul>
Use of Bond Proceeds	<ul style="list-style-type: none"> <li>◆ Acquisition or improvement of real property only</li> <li>◆ No furnishings or equipment</li> </ul>	<ul style="list-style-type: none"> <li>◆ Construction, reconstruction, rehabilitation or replacement of school facilities</li> <li>◆ Furnishings and equipment</li> <li>◆ Acquisition or lease of real property</li> </ul>
Accountability Measures	◆ None	<ul style="list-style-type: none"> <li>◆ Citizens' Oversight Committee</li> <li>◆ Annual audits</li> </ul>



# Comparison of Parcel Tax & Bond Measures

	Parcel Tax	Proposition 39 Bond
Voter Approval Threshold	◆ Two-thirds	◆ 55%
Primary Use of Proceeds	◆ <b>Operational:</b> any use, including programs, personnel and operations	◆ <b>Capital:</b> facilities and equipment (including technology)
Receipt of Proceeds	◆ Funding received each year as taxpayers pay property taxes	◆ Funding received upfront via debt issuance and taxpayers repay principal and interest via property taxes
Tax Parameters	<ul style="list-style-type: none"> <li>◆ Cannot be based on the value of property (typically a flat rate per parcel)</li> <li>◆ No cap on tax other than political limitations</li> </ul>	<ul style="list-style-type: none"> <li>◆ Based on AV of property</li> <li>◆ \$30 per \$100,000 of AV for elementary and high school districts school districts</li> </ul>
Election Dates	◆ May be on a special election ballot	◆ Regularly scheduled ballot
Accountability Measures	◆ Optional Citizens' Oversight Committee	◆ Mandatory Citizens' Oversight Committee
Senior Exemptions	◆ Allowed	◆ Not allowed



# Bond Program Considerations

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General obligation bond programs are generally structured based on:

- ◆ **Funding needs**
  - District projects
    - Scope
    - Cost
    - Timing
- ◆ **Financing constraints**
  - District assessed value
  - Interest rates
  - Tax rates
  - Legal parameters
    - State law
    - Federal law

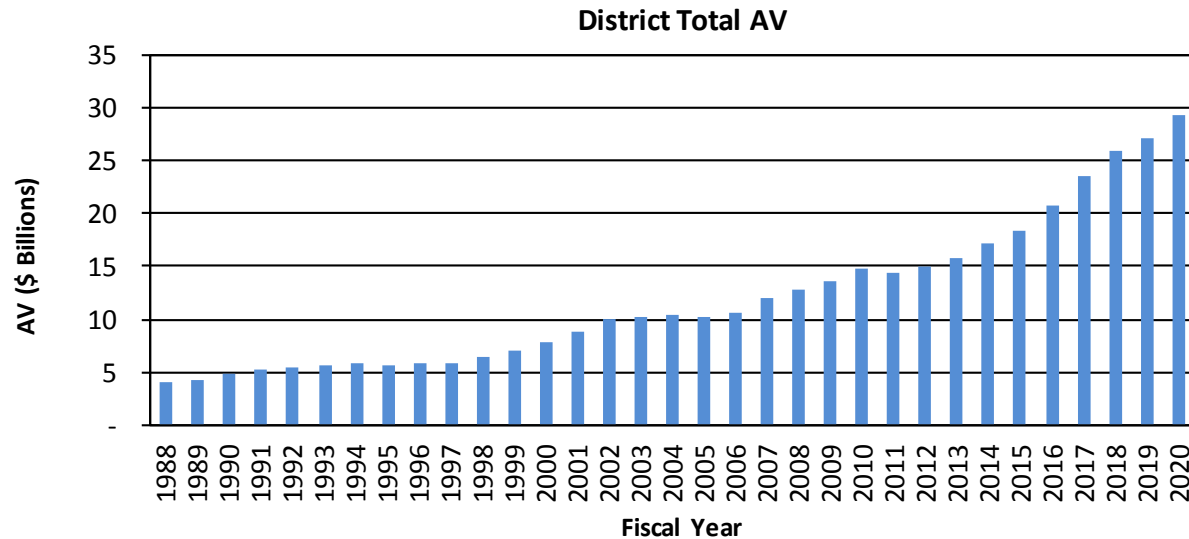
School districts commonly seek multiple GO bond authorizations to meet their ongoing project needs



# Assessed Value (“AV”) History

Mountain View Whisman SD grew 8.36% in 2019-20

- ◆ The former Mountain View SD represents 62.4% of the total AV
- ◆ The former Whisman SD represents 37.6% of the total AV



Growth Statistics			
Annualized Growth Rates:		Lowest Rolling Averages:	
1-year:	8.36 %	3-year:	0.54 %
5-year:	9.86	5-year:	2.00
10-year:	7.10	10-year:	4.09
15-year:	7.35	15-year:	4.87
20-year:	6.83	20-year:	5.20
25-year:	6.81	25-year:	5.51
30-year:	6.22	30-year:	6.37

FY	Total AV <sup>(1)</sup>	Annual % Change
1988	\$ 4,016,359,523	
1989	4,254,855,681	5.94 %
1990	4,800,206,033	12.82
1991	5,223,278,540	8.81
1992	5,344,021,546	2.31
1993	5,606,013,593	4.90
1994	5,728,071,074	2.18
1995	5,653,430,504	-1.30
1996	5,778,951,712	2.22
1997	5,900,637,935	2.11
1998	6,416,959,960	8.75
1999	7,088,425,781	10.46
2000	7,834,967,334	10.53
2001	8,746,920,698	11.64
2002	9,970,705,164	13.99
2003	10,280,852,219	3.11
2004	10,414,457,142	1.30
2005	10,132,992,586	-2.70
2006	10,654,863,150	5.15
2007	11,900,729,296	11.69
2008	12,767,567,548	7.28
2009	13,650,618,335	6.92
2010	14,785,613,473	8.31
2011	14,397,541,410	-2.62
2012	14,881,752,063	3.36
2013	15,855,098,426	6.54
2014	17,155,503,989	8.20
2015	18,351,287,766	6.97
2016	20,657,107,181	12.56
2017	23,516,716,879	13.84
2018	25,996,182,874	10.54
2019	27,104,016,031	4.26
2020	29,368,739,836	8.36

(1) Source: California Municipal Statistics, Inc. and Santa Clara County.





# IRS Spend-Down Requirements

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## 3-year expenditure rule:

- ◆ 5% of bond proceeds and earnings **committed** within 6 months
- ◆ 85% of bond proceeds and earnings **spent** within 3 years

## 5-year expenditure rule:

- ◆ 10% of bond proceeds and earnings **spent** within 1 year
- ◆ 30% of bond proceeds and earnings **spent** within 2 years
- ◆ 60% of bond proceeds and earnings **spent** within 3 years
- ◆ 85% of bond proceeds and earnings **spent** within 5 years
- ◆ *Note: requires that an architect or engineer show that the actual construction/acquisition of the project takes up to 5 years*



# March 2020 Election Scenario

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**Summary:** A new tax for \$30 per \$100,000 of AV (Proposition 39 maximum tax rate) would generate \$259 million in proceeds

◆ **Assumptions:**

- Interest rates: 5.00% - 6.00%
- AV growth rates:
  - 2020-21 3.00%
  - 2021-22: 4.00%
  - Annually thereafter: 4.85%
- Current interest bonds only; no capital appreciation bonds

◆ **Note: Changing any of the assumptions will impact the total proceeds**

- Higher AV growth, lower interest rates, or more issuances will increase the proceeds
- Lower AV growth, higher interest rates, fewer issuances, or a lower tax rate will decrease the proceeds

**Illustrative Issuance Schedule <sup>(1)</sup>**

<b>Issue</b>	<b>Issue Date</b>	<b>Proceeds</b>	<b>Net Repayment Ratio</b>
Series A	August 2020	\$ 64,750,000	1.92 to 1
Series B	August 2022	64,750,000	1.99 to 1
Series C	August 2024	64,750,000	2.12 to 1
Series D	August 2026	64,750,000	2.29 to 1
Total		\$ 259,000,000	2.08 to 1

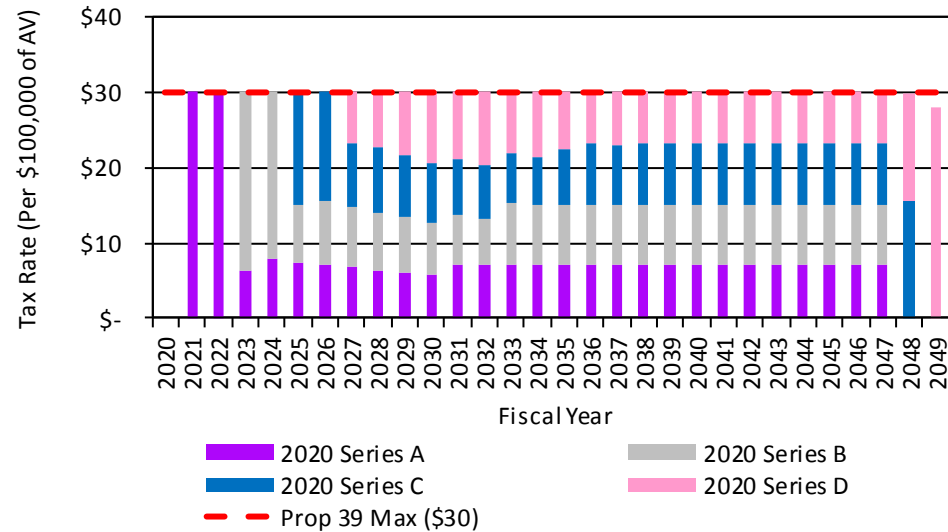
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(1) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's project needs.

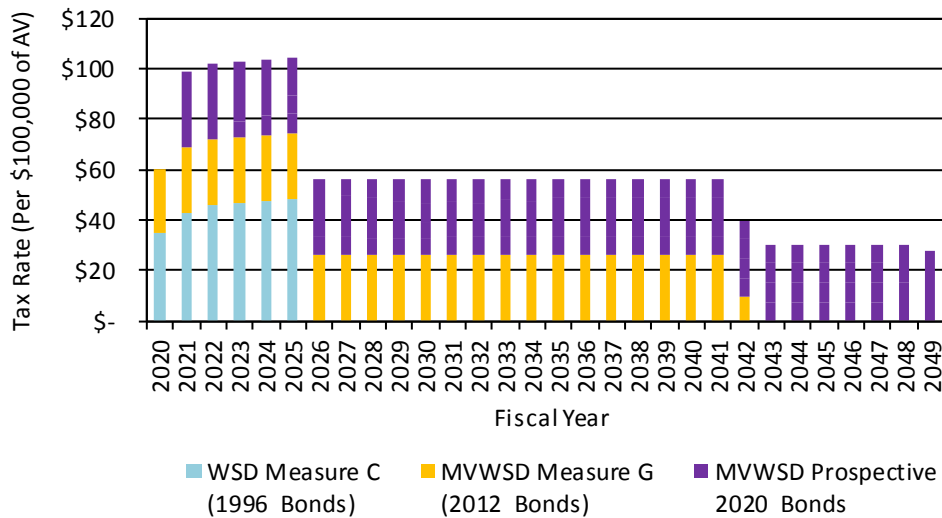


# Projected Tax Rates (1)

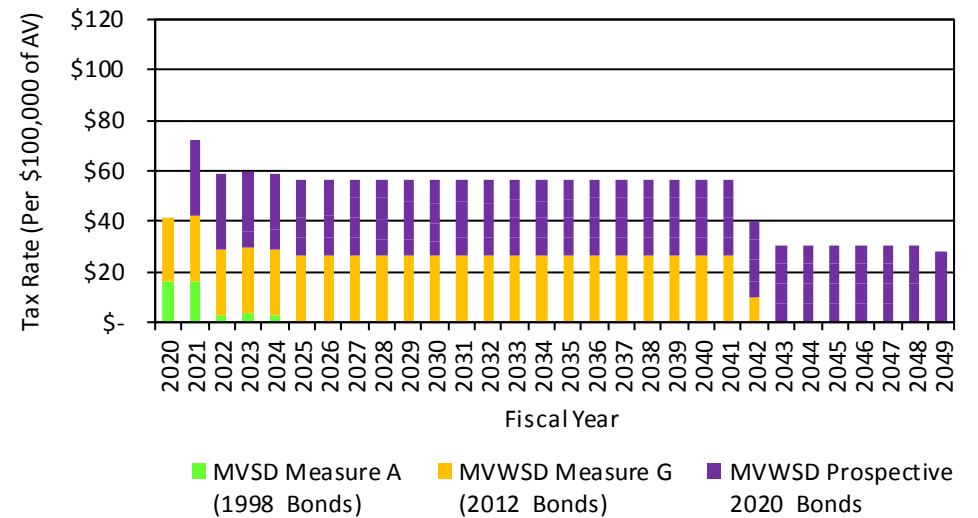
**Projected Tax Rates - Prospective 2020 Election Bonds**



**Projected Tax Rates - Whisman SD Portion**



**Projected Tax Rates - Mountain View SD Portion**



(1) Assumes assumptions shown on previous page.



# Assembly Bill 195 (2018)

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AB 195 requires any tax measure (e.g. bonds) to disclose the following information in the 75-word ballot statement:

- ◆ Tax rate
- ◆ Amount of money to be raised annually
- ◆ Duration of the tax

Following is a sample of an AB 195-compliant 75-word ballot statement:

- ◆ “To replace leaking roofs, plumbing/electrical systems, repair/replace classrooms for math, science, reading, writing/technology instruction, upgrade outdated safety systems to meet current safety codes, qualify for State matching funds, and acquire equipment/construct facilities, shall this Portola Valley School District measure authorizing \$49,500,000 in bonds at legal rates, levying \$3.4 million annually at \$30/\$100,000 assessed value while bonds are outstanding, be adopted with oversight, all funds benefiting Portola Valley schools, and not taken by the State?”

## Considerations

- ◆ ~15 of the 75 words are used to disclose tax information instead of additional projects
- ◆ This may negatively impact support for a new measure



# Illustrative March 3, 2020 Election Timeline

Activity	Minimum Timing
Develop or update District facility master plan to identify and prioritize potential bond projects	Currently – Aug 2019
Bond team meeting with District personnel, financial advisor, bond counsel, pollster, and strategist	Currently – Aug 2019
Determine all available sources of capital improvement funds, including State funds, capital fund reserves, donations, developer fees, and bond proceeds	Currently – Aug 2019
Begin community outreach to educate voters on District’s facility needs	Currently & Ongoing
Identify issues within the community that could impact the bond election	Aug 2019
Conduct voter opinion survey (if required)	Aug 2019
Adjust community messages based on voter opinion survey	Sep 2019 – Nov 2019
Identify community leaders to serve on campaign committee	Nov 2019
Finalize bond projects list, election amount, estimated tax rates, and draft ballot language	Nov 2019
Adopt resolution, including tax rate statement, calling for bond election ( <b><i>must be received by County Registrar of Voters by December 6, 2019</i></b> )	Nov 2019
Prepare impartial analysis (bond counsel, county counsel) and pro-ballot argument (committee, campaign consultant) for voter pamphlet	Dec 2019
Fund raising by bond committee	Dec 2019 – Feb 2020
Conduct active “Yes on” campaign	Dec 2019 – Feb 2020
Election	Mar 3, 2020
Certify election results	April 2020
Issuance of bonds	May 2020



## Section II

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School Facilities Improvement District Bonds

# School Facilities Improvement District Bonds Overview

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Bonds for School Facilities Improvement Districts (“SFIDs”) are general obligation bonds for only a portion of a school district’s boundaries

- ◆ The size of the bond would depend upon the AV of the SFID compared to the AV of the district as a whole
  - For example, if a school district’s AV supported a \$100 million bond, an SFID that represented 50% of the territory of the school district would therefore support a ~\$50 million bond
- ◆ The County Board of Supervisors and Board of Trustees must approve resolutions to form the SFID(s)

SFIDs are a good option for districts that wish to only tax a portion of the district

- ◆ For example, if a district needed to renovate schools that only benefited one portion of the district, an SFID might be considered
- ◆ The following districts have put bond measures on the ballot for SFIDs since 2014:
  - Saugus Union SD
  - Upper Lake USD
  - Centinela Valley UHSD
  - Santa Barbara USD
  - Hughson USD
  - Western Placer USD
  - Mountain View SD
  - Mojave USD
  - Tracy USD

After the formation of the SFID, the general timeline for voter approval and issuance of SFID bonds is the same as the timeline for general obligation bonds



## Section III

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Mello-Roos Bonds



# Mello-Roos Bonds Overview

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Mello-Roos bonds are a type of land secured financing that leverages the value of land in a portion of the school district

- ◆ Most commonly-used method of financing infrastructure for new development on the local government level in California
- ◆ Special taxes are collected using a special tax formula
  - Bonds may or may not be issued against the special tax revenue stream
    - If Bonds are issued, special tax revenues will be used to pay debt service on bonds annually
    - Bonds are generally issued on a tax-exempt basis
- ◆ To form, the school district sponsors the creation of a Community Facilities District (“CFD”)
  - CFD legal authority is the Mello-Roos Community Facilities Act of 1982 (hence “Mello-Roos” bonds)
  - Requires approval of 2/3rds of CFD’s registered voters
    - Property owners agree/vote to put lien on property
    - If less than 12 registered voters in CFD, vote is by landowner, weighted by acreage, otherwise vote is by registered voters in CFD
  - The timeline from start to finish for bond issuance is dependent on the developer and development status
- ◆ Repayment of bonds does not impact public agency general fund



# Benefits of Mello-Roos Special Taxes

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## Developer perspective:

- ◆ Access lower cost of financing with tax-exempt interest rates
  - Without a CFD, developer must pay fees at the time a building permit is obtained and carry financing cost of fees until home is sold
  - With a CFD, fees reimbursed through the issuance of bonds
- ◆ Non-recourse, off-balance sheet financing
  - Cost of developer fees passed to homeowner over time through the special tax levy rather than in the selling price of the home
- ◆ Provide funds/projects to public agency sooner so schools open when new homes are completed

## Public agency perspective:

- ◆ Assist in financing public facilities
  - Allows for earlier construction of school facilities compared to funding from developer fees
    - Developer fees typically paid at building permit
    - Approximately 6 months from building permit to completed home
- ◆ Repayment burden is on property owners, not public agency
- ◆ Generate new revenue source for projects



# What Can Land Secured Bonds Finance?

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- ◆ The revenue stream from the Mello-Roos special taxes may fund facilities or services
  - If bonds are issued against the revenue stream, then the bonds can be issued to fund capital projects only
- ◆ Facilities financed must be owned and operated by a public agency
  - Owned/controlled by public agency and/or
  - Owned, operated and maintained by other public entities
    - Joint Community Facilities Agreements with other public entities
- ◆ Public improvements must have a useful life longer than five years
- ◆ May or may not be physically located in CFD



# Special Tax Formula

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The special tax formula governs the special taxes levied in a CFD

- ◆ Special taxes may be levied for both infrastructure and services
- ◆ Special taxes may be levied on developed and undeveloped property
- ◆ Special taxes can not be based on the value of a home
- ◆ Rate and Method of Apportionment (“RMA”) is flexible
  - Rates may be based on size of residential property (lot or home) and acreage if commercial/industrial;
  - Priority of levy may be given to developed property over undeveloped property
- ◆ Special tax rate is set at a manageable level for future homeowners (typically below 2% effective tax rate)

A special tax consultant is typically hired to do the special tax calculations based on the proposed development



# CFD Formation Overview

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In general, CFD formation and bond issuance process are as follows:

- ◆ Public agency/property owner initiates petition
- ◆ Public agency goals & policies are adopted
- ◆ Public agency board commences CFD proceedings
- ◆ Public hearing
- ◆ Election
- ◆ Final actions taken by board
- ◆ Bonds issued
- ◆ Project costs funded/reimbursed
- ◆ Annual special taxes levied



## Section IV

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Certificates of Participation

# Certificates of Participation Overview

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Certificates of participation (“COPs”) are a common method of financing used by California school districts to construct/acquire real or personal property

- ◆ Repaid from any legally available source of funds (typically General Fund for most districts)
- ◆ Funds can be used for capital projects of the District; cannot be used for operations
- ◆ Borrowing costs are tax-exempt (assuming qualified tax-exempt use of proceeds)
- ◆ Can be structured with early prepayment options (any legally available source of funds)
- ◆ Financing term must be commensurate with the useful life of the project

No voter approval required

- ◆ District must provide written notification of financing to the County Office of Education and Auditor-Controller’s Office
  - Estimated financing repayment schedule
  - Projected sources of funds for COP repayment
- ◆ The timeline for issuance is 3-4 months from start to finish

***District must carefully assess their ability to repay COPs to avoid overburdening the sources of funding***



# COP Diagram

Under California law, school districts cannot enter into non-voter approved debt for longer than one year. COPs are structured as a lease/leaseback (not the same as the lease/leaseback project delivery method), allowing districts to incur debt for a longer period of time. This is a common practice that California school districts have employed for decades.

1. District assigns rights of an essential District site (e.g. school site) to a non-profit organization (e.g. CSBA, District-formed, or other organization)
2. District maintains useful possession of site and as such, makes lease payments to the non-profit for useful possession
3. Investors provide capital improvement funds to District by purchasing COPs from the District
4. Non-profit organization assigns lease payments to Investors (repayment of COPs)
5. Rights of the essential site return to the District once COPs are completely repaid

